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STATUS OF 1988 TAX FILING SEASON

HEARING

BEFORE THE

SUBCOMMITTEE ON PRIVATE RETIREMENT
PLANS AND OVERSIGHT OF THE
INTERNAL REVENUE SERVICE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

FEBRUARY 16, 1988

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
85-030 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

5361-46

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STATUS OF 1988 TAX FILING SEASON

TUESDAY, FEBRUARY 16, 1988

U.S. SENATE, SUBCOMMITTEE ON PRIVATE RETIREMENT PLANS AND OVERSIGHT OF THE INTERNAL REVENUE SERVICE, COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m. in room SD-215, Dirksen Senate Office Building, the Honorable David Pryor (chairman of the subcommittee) presiding.

Present: Senator Pryor.

[The press release announcing the hearing and Senator Bentsen's prepared statement follow:]

[Press release No. H-5 February 8, 1988]

FINANCE SUBCOMMITTEE ON IRS OVERSIGHT TO HOLD HEARING ON STATUS OF 1988 TAX FILING SEASON

WASHINGTON, DC.—Senator David Pryor, (D., Arkansas), Chairman of the Senate Finance Subcommittee on Private Retirement Plans and Oversight of the Internal Revenue Service, announced Monday that the Subcommittee will hold a hearing to review the status of the current tax filing season.

The hearing is scheduled for Tuesday, February 16, 1988 at 10:00 a.m. in Room SD-215 of the Dirksen Senate Office Building.

Pryor said, "Because this is the first filing season under the Tax Reform Act of 1986, everything is going to seem new and strange at first. The forms and rules of past years will be different this time. It is Congress' responsibility to monitor the public's reaction and to keep an eye on how the Internal Revenue Service implements the new law."

PREPARED OPENING STATEMENT OF HON. LLOYD BENTSEN, U.S. SENATOR FROM TEXAS, CHAIRMAN, COMMITTEE ON FINANCE

Mr. Chairman, I applaud you for having this hearing to monitor the progress of the filing season under the Tax Reform Act of 1986. It will be a difficult season and it will be important for the Congress to keep a close watch on the implementation of the Tax Reform Act.

As you know, I was not Chairman of this Committee when the Tax Reform Act was enacted. There was tough decisions to be made and if I had been Chairman, I might have done some things differently. However, I realize it was a difficult time and decisions had to be made. Now the Tax Reform Act is squarely in Commissioner Gibbs' lap. I have great respect for Commissioner Gibbs and I know he had gone to great lengths to try to ensure that the transition to the Tax Reform Act's new rules is as smooth a transition for all taxpayers as possible. I will be following with great interest the progress of this very significant filing season.

OPENING STATEMENT OF HON. DAVID PRYOR, U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Good morning, ladies and gentlemen. I would like to welcome all of you here today, especially Commissioner

Lawrence Gibbs to discuss the state of the 1988 income tax filing season, and more importantly, the IRS's readiness to deal with this filing season that is now upon us.

I would also like to welcome Deputy Commissioner Murphy and Director of Taxpayer Services, Robert LeBaube. I look forward to a very frank discussion this morning; and once again, I want to thank all of you for coming.

Just so you will know, I have just returned from the State of Arkansas. I spent 8 days there. I have been in about 10 Arkansas counties; and I think that the INF treaty is not the No. 1 issue on the minds of the people there, nor the Iowa and New Hampshire caucuses and primaries, but how we fill out our income tax this year.

People are very, very confused. I have stated that they are mystified. Some of that may be the fault of the Congress. Some of that may be the fault of the Internal Revenue Service, but we are going to get to the bottom of that and have a frank discussion about that in a minute.

Mr. Commissioner, I am not certain if you are aware—and I was not until recently—that this year marks the 75th anniversary of the 16th amendment of our U.S. Constitution. On February 3, 1913, the last State needed for ratification voted in favor of the 16th Amendment. Soon after that ratification, the Congress of the United States passed and signed a law establishing a direct tax on income.

As you are only too well aware, Mr. Commissioner, it has been the Internal Revenue Service's job ever since to administer that income tax system.

It is my belief that this year may become the real test—the real test—of the IRS's ability to administer the income tax laws of the United States. In addition to marking the 75th anniversary of the 16th amendment, this year also marks the first filing season under the Tax Reform Act of 1986.

By now, the public has heard of the many changes made to the Tax Code by the 1986 Act. Some have obtained the 1040 form and have noticed the differences between it and last year's form. Others have read the press accounts of the mystifying forms and rules; but most of all, I think taxpayers across America remember last year's attempt at rewriting the W-4 Form, and they fear a repeat performance.

Mr. Commissioner, it has been my experience that a substantial number of Americans suffer from form phobia the unreasonable fear of spending a weekend home alone with an IRS form.

Today, I would like to discuss what the IRS is doing to cure this dreaded malady. More specifically, I would like to review what the IRS is doing to ensure that people receive help and information—and the proper information—with the new laws and the new forms with which they are now faced.

I would like to discuss any problems with the new forms and publications that have come to your attention.

Additionally, I would like to hear what the IRS is doing to anticipate increased workloads with the phone and walk-in services available to the American taxpayer.

This subcommittee would also like to talk about computer and service center readiness and IRS contingency plans for a Philadelphia-like emergency that occurred in 1985.

Finally, Mr. Commissioner, I would like to discuss the most recent filing data compiled by your agency and what those numbers tell us about the status of this tax season.

Mr. Commissioner, it is my sincere hope that the IRS and the Congress can work together to guarantee a successful filing season for the American taxpayer and also for the Treasury of the United States.

Oliver Wendell Holmes said, as you know, that tax is the price we pay to live in a free society.

I would like to end my statement this morning with a quote from Will Rogers—not Zacchias this time, Mr. Gibbs—which I feel best summarizes what most taxpayers are thinking as they sit down to do their taxes in 1988.

And I quote from the late Will Rogers: "Even when you make a tax form out on the level, you don't know when it is through, and if you are crook or a martyr."

I will now turn it over to you, Commissioner Gibbs, to discuss what the IRS is doing to make sure that we have fewer martyrs and fewer crooks come April 15. Thank you very much for your appearance. You now have the floor.

STATEMENT OF LAWRENCE B. GIBBS, COMMISSIONER OF INTERNAL REVENUE, WASHINGTON, DC

Commissioner Gibbs. Thank you, Mr. Chairman. I would like to ask that our written statement, which covers some 31 pages and has 4 appendices, be submitted for the record.

Senator Pryor. It will be printed in full in the record.

Commissioner Gibbs. Thank you, sir. I don't plan to go through that on a detailed basis, but I would like to take a little bit of time this morning for me and also for our Senior Deputy Commissioner, Michael Murphy, and our Director of Taxpayer Services, Robert LeBaube, to make a presentation to you. It will be a joint presentation to discuss the preparations for the filing season and also to address many of the questions that you have raised in your opening statement.

Then, of course, we will be happy to answer any questions that you may have.

We have divided our presentation this morning among the three of us, and I am going to be covering four essential points. The first point is to emphasize that, although the implementation of tax reform was an enormous undertaking, we at the Internal Revenue Service have approached the challenge as an opportunity to demonstrate our commitment to quality and additional service, and to enhance our role as tax administrators.

The second point is that I am very proud of the employees at the Internal Revenue Service with respect to the work that they have done, both internally and externally, to get ready for this filing season; and I am particularly proud of the fact that our internal and external reviews have also indicated that our employees have done a good job in getting ready for the filing season this year.

The third point notwithstanding all of our preparations and efforts, there are going to be problems that will undoubtedly develop during this tax filing season because of the enormous number of changes that the 1986 act makes in the tax law. And I will discuss those with you as candidly as I can.

And finally, I will make a recommendation with respect to what we can jointly do to attempt to minimize the concern and confusion for the future.

After I conclude, I will turn the microphone over to Bob LeBaube and ask him to discuss with you in detail our preparations in the taxpayer service area. They have been extensive, and I hope you will find them interesting.

And finally, I will ask Mike Murphy to discuss with you the planning that we have done in our service centers and the contingency plans that we have developed in order to deal with unexpected occurrences during the filing season.

Let me return to my first point, which was that, despite the fact that this is a substantial act—really one of the largest acts that I have seen during my professional lifetime—we at the Internal Revenue Service have seen this filing season and tax reform as a whole as an opportunity to take advantage of, and not a chore from which we should shirk.

This is in keeping with our quality and customer service initiatives that we have discussed previously and that we will be discussing again in April. Mr. Chairman, I would like to thank you in advance for holding the hearing in April on our quality initiatives.

I won't cover them today, but I will say that IRS views tax reform as an opportunity for us to carry the quality and customer service messages to the taxpayers that we now call our customers.

The Internal Revenue Service commitment to quality was present at the Internal Revenue Service before I arrived. It was begun over 2 years ago while I have been at the agency for 18 months. And with the support of the career staff, including those who will testify today, I think you will see that it is in place and will continue along after I am gone.

Now, in preparing for the filing season, one of the first things that we did as an organization was to develop and articulate and communicate goals for the filing season, for the agency, both internally and externally.

Those goals are attached as appendix A to the written testimony. I will not cover them other than to note that, in preparing for tax reform, and particularly the filing season this year, we focused on letting taxpayers and practitioners know early on what our forms would be like.

We also developed publications to explain the new law to taxpayers. We beefed up our taxpayer service programs in anticipation of the filing season. And finally, we have been making sure that our service centers are ready to accurately process tax returns and refunds on a timely basis.

You mentioned the W-4 problems last year. I think the important lesson from that experience is that when a form is produced that is difficult for taxpayers to understand, then obviously they have difficulties in complying with it.

One of the things we have done this year is to try to change our 1040, 1040A, and 1040EZ for individuals and the forms for businesses as little as possible, even though a number of changes had to be made because of this new law.

From that experience we learned that it was important for people to be able to look at the form and identify it with something with which they were familiar from the past.

But we did something else that was much more important than that. Early on last year in May, June, and July, we publicized the key forms in draft that would be used this year. This was earlier than we had ever released draft forms before. Then, we asked the firm of Booz-Allen and Hamilton to test the forms that we were providing to taxpayers.

You may be interested to know that tax reform caused us to change about 162 of our forms. Tax reform also caused us to develop 48 new ones, and we had to develop about 13 new publications.

With the help of Booz-Allen and Hamilton, we took the new and revised forms, particularly the ones that would be used by most Americans—the 1040, the 1040A, the 1040EZ, Schedule A with respect to the itemized deductions, the form for the IRA contributions, and also the home mortgage interest form—and tested them in 64 focus groups in 23 different cities with over 550 taxpayers. We asked taxpayers to review the forms and to determine what kinds of issues and problems they had with the initial drafts.

Then, with the comments that taxpayers made to Booz-Allen, we went back and revised the forms before they were finally printed in an attempt to address some of the issues and concerns that have been raised in the focus testing and to try to adapt the forms to make them as easy as possible to fill out this year.

Again, I suppose our message with respect to my first point is that we have attempted to learn from our experiences in the past, and we have attempted to develop forms and publications that would meet the challenge of educating the public about the tremendous changes that the act makes.

My second point is that the employees of the Internal Revenue Service, in this area and in other areas, have been deeply involved in the overall implementation efforts in carrying out tax reform and getting ready for the filing season. Let me outline four ways we reviewed our progress.

First, in February of last year, we formed an executive steering committee for tax reform, which was charged with the internal oversight responsibility of developing our overall plans as an agency for how we were going to carry out tax reform and get ready for the filing season this year.

This committee included both national office and field officials, and I think they did an excellent job, not only in developing and implementing our tax reform strategies, but also in ensuring that our messages were being effectively communicated to taxpayers and throughout our own organization.

Second, the executive steering committee that was formed in February of last year also, in turn, formed a subgroup, which we call our 1988 Filing Season Readiness Group. This second executive committee was charged with the responsibility for conducting readiness checks in the three key areas during the filing season, namely the service centers where the returns are filed and processed; taxpayer services, which include not only our telephone assistance, but our educational and outreach assistance; and our forms and publications distribution sites where the forms and publications are available for taxpayers to order, either by mail or by a toll-free telephone number.

A copy of the report of the Filing Season Readiness Group, which is attached to my testimony as appendix B. This report summarizes the activities of the Readiness Group. They conducted a review during the summer and the fall of last year and found that all three functional areas generally had done an excellent job in planning for the filing season. They did, however, have a number of recommendations, each one of which was implemented by the particular area that was affected.

Third, I instructed our internal audit staff to conduct internal audits to again review our state of readiness for the filing season. Internal Audit did not identify any major problems that would preclude a successful filing season, but they did identify several areas which needed attention and which have already received followup activity or where followup activity is in progress.

Internal Audit will continue to actively monitor this filing season and is vital to my office as an independent check on our overall readiness and also our implementation of the filing season. Our Internal Audit function is part of our Assistant Commissioner (Inspection), which answers directly to me and to Mr. Murphy. This will be absolutely key this year to monitoring how we are doing during the filing season.

The fourth and final review that we conducted was an external review. We contracted with Booz-Allen and Hamilton to come in during last July through August and evaluate our tax reform implementation plans. After conducting extensive interviews and reviewing our implementation plans in detail, Booz-Allen concluded that, and I quote, "The tax reform implementation planning process was effective and produced a sound plan overall." The Executive Summary of the Booz-Allen and Hamilton report is attached as Exhibit C to my testimony.

The report does contain a number of suggestions and recommendations that we could take to ensure a successful filing system; and we have carried out each one of those recommendations. Indeed, most of them were being implemented at the time the report was issued last fall.

Now, notwithstanding all of our preparations—and I am passing on to my third point—we are not able to guarantee an error-free filing season. There are going to be errors. They are going to be made by taxpayers, practitioners, and the Internal Revenue Service. With a bill of this size, with the changes that it makes, I don't think that should be too surprising to any of us.

We are watching certain trends. One of the trends that we are watching very closely is the trend toward later and later filing of tax returns. That has been a trend that has been occurring over the last several years.

Last year we received approximately 40 percent of the individual returns that were filed after April 1. So, you can see that the impact is very substantial as more taxpayers file later in the filing season.

We have attempted to address that issue in a number of ways, particularly through our fall campaign last year where we distributed a flyer to taxpayers, advising them about tax reform and asking them to order our Publication 920 which explains the impact of tax reform on individuals.

It is interesting to note that, although I was told that selling tax reform in the fall was a lot like selling Christmas trees in the summer, we have already received over 16 million requests for our Publication 920; and it promises to be, by far and away, the best seller that we have ever had and, indeed, exceeds our expectations substantially. That is almost 16 percent of the population that has already ordered that single publication as a result of our fall campaign.

In addition, with the Ad Council this year, we also have begun to advertise the need for taxpayers this year to start early in order to make their taxes less taxing. Our ads are intended to motivate taxpayers to get their information together to begin to understand how this new law impacts them; and if they have questions, to either call the Internal Revenue Service or, if they prefer, seek the assistance of a preparer. Above all, we want taxpayers to start early on in the filing season.

I am happy to report today that the gap between returns filed this year, in comparison to returns filed last year, has closed substantially. I believe a week ago Mr. LeBaube reported that we were about 17.5 percent behind in the receipts of returns in comparison to 1987. As of this last week, we are now only a little over nine percent behind.

So, the gap is closing between last year and this year.

Senator PRYOR. Excuse me. That is between the 1988 filing and the 1987?

Commissioner GIBBS. That is correct; and remember, as I said, that the more returns are being filed later and later each year. We felt it was important because of tax reform not to let this happen this year, and to address the potential problems of concern, procrastination, and the other reasons why taxpayers put off filing their returns.

So, I am happy to say that it appears, in terms of the trends that we are seeing, that the filing of returns this filing season is certainly no later than it has been in the past in terms of the trend; and indeed, we are closing the gap between last year and this year.

A second area where we had some concerns and interest, particularly because of the withholding form last year, was whether there would be substantial underwithholding this year.

Again, I am happy to say from the figures that we have received through the end of 1987 that overall withholding and estimated tax payments are up from last year. Withholding is up almost three percent in gross numbers over last year, and the estimated tax payments are up over 13.5 percent over what they were last year.

Now, those are gross numbers and of course we had to adapt those numbers to the number of returns that would be filed in order to attempt to come up with an average refund for this year.

After using the information that is available to us, we anticipate that the average refund this year will go up, not down; and indeed, if you will take a look at the early statistics, what you will find is that the average refund has been running anywhere from $85 to $100 in excess of the average refund that was being paid this time last year.

That is even with the acceleration last week of the returns that we are now receiving; it is still holding that the average refund this year is higher than the average refund last year.

We recognize, however, that there may well be significant pockets of people who will be underwithheld. Again, that is part of the reason for our emphasis on early preparation and filing this year, so that if taxpayers find that they do have taxes that will need to be paid, they can make arrangements between now and April 15. They can also adjust their 1988 withholding this year so that, this time next year, they can have the refund that they want.

A third area that we are watching very closely as a result of some of the hearings last year is in our taxpayer service area, and Mr. LeBaube will be covering this at some length. I simply want to highlight that we have put in place a system to test the quality of the courtesy of our people on the telephone, the completeness of the responses, and the accuracy of the responses.

This is the first time that we have ever done this, and it is a program that Mr. LeBaube will spell out in detail. This is a continuous program that, on a daily basis, helps us spot where errors are occurring and permits us to address those errors on an overnight basis with our folks on the telephone in order to enhance the quality of the service that we are providing on the telephones.

Finally, we recognized with the substantial changes that were being made by the 1986 act that taxpayers were likely to have errors as they filed their returns. What we are doing there is to monitor the returns very carefully as they come in and feed back through our public affairs officers to the press, to our taxpayer assistance folks, and to the public who call in, to generally make the public aware of where the errors are occurring in the early part of the filing season. This will aid those people who prepare their returns, later in the filing season. I have a number of those problem areas, if you would like to get into them a little bit later on.

Let me conclude my portion of this testimony with a recommendation as to how we might join together to minimize the concern that taxpayers have with our tax laws; and that is this: I think there is one thing that we could do, and it would be to diminish the quantity and velocity of change with respect to our tax law.

For the most part, I think taxpayers this year are not dealing with complexity as much as they are with change. Virtually every taxpayer is affected by the changes in the Tax Reform Act. In my own opinion, the act is a good piece of legislation in the sense that I think it provides the basis for a much fairer tax system, a much fairer set of tax laws.

But I think one element of fairness should be the impact of change on taxpayers. We have had 19 major tax bills in the last 23 years in this country. I don't think we should be surprised that people are simply confused because of the changing rules.

Certainly, it is difficult on us as an agency to adapt our forms, instructions, and publications each year to a changing set of laws. I would urge, as we approach 1988, that we not have another revenue act such as the Revenue Act of 1987. Let's have technical corrections, but let's have no more changes in our tax law.

Let's let the taxpayers, the practitioners, and the Internal Revenue Service get used to this new law. That would be the one recommendation that I would make this year.

What I would now like to do, Mr. Chairman, if it is appropriate, is to turn the microphone over to Mr. LeBaube and ask him to give you a more in-depth report on our taxpayer service function.

Senator PRYOR. Thank you, Mr. Commissioner. Mr. LeBaube?

[The prepared statement of Commissioner Gibbs appears in the appendix.]

STATEMENT OF ROBERT LE BAUBE, DIRECTOR, TAXPAYER SERVICE DIVISION, INTERNAL REVENUE SERVICE, WASHINGTON, DC

Mr. LEBAUBE. Mr. Chairman, I am pleased to be here today as the newly appointed Director of Taxpayer Service and because this is my first trip to the Hill.

Senator PRYOR. When were you appointed to fill this position?

Mr. LEBAUBE. I was appointed in October of 1987.

Senator PRYOR. 1987?

Mr. LEBAUBE. Yes.

Senator PRYOR. And this is your first testimony?

Mr. LEBAUBE. That is correct.

Senator PRYOR. Thus far, you are doing well.

Mr. LEBAUBE. Thank you. [Laughter.]

I am a little excited and perhaps a little nervous, but I will do my best to present some important information to you today.

I am excited not only because of this event, but I am excited because I am personally committed to giving the best quality taxpayer service that we can to the citizens of this country, our customers.

Each year brings with it a new set of challenges for us at IRS, and each year, as we attempt to develop the various strategies and jobs that we have to do, we approach those as opportunities. I can assure you that everyone within the area of the Assistant Commissioner of Taxpayer Service and Returns Processing is approaching this task with the greatest seriousness and with the greatest diligence; but this filing system is going to be a severe test of our abilities.

I would like to talk to you a little bit this morning about our hiring and what we have done in the taxpayer service area. We determined quite early—in fact, before the bill was signed into law—that we needed to do a total revamp of our training; and we began that effort early in 1987.

We took the new training program that was developed and tested it last summer; and then we began to train our new employees as we brought them on board, some as early as August of 1987.

All of the training was tested, was put into place, and was given to all of our new employees, as well as all of the employees in the

Service. We also brought our new employees on earlier than we ever have. We put them into place and put them right on the line so that they could get as much experience and learn as much as they possibly could before the filing season started.

We asked our supervisory people to be sure to monitor all of these new employees, to make sure that they were doing the job that we wanted them to do and to call to the attention of the National Office where we were having problems with the training and where the training might not be adequate.

We hoped that through these efforts we would be able to bring the finest taxpayer service that the public has ever seen from the IRS.

Last year, if you will recall, near the end of the filing season, there were some hearings and some reports that dealt with our quality of service. We were not pleased with those results; and in fact, our own national office and regional office testing programs confirmed what the General Accounting Office had said.

Our traditional methods of testing for accuracy and quality were not giving us what we really needed. As a result of that, we decided to institute a new program. It is called the Integrated Test Call Survey System.

It is developed sort of after a model of the Consumer Price Index. It is a very complex statistical model that we use to test what is actually going on in the public and to test how well our assistors are carrying out the job we want them to do.

We have a staff of National Office people who are calling 29 of our call sites daily, using a valid statistical sample. We apply the knowledge that we have gained according to the proportion of calls that we are actually receiving from the public so that our questions—our test questions—model what is actually occurring from the public.

From that information, we go into a computer process and analyze that data. We are just getting the first results out now, and it is a very difficult analysis. We are checking to make sure that the numbers are reflective of what is actually going on, and our statisticians are working with that, even as we speak.

We have a lot of hope for this system. It can give us the earliest trend data we have ever had as to the areas where we need to beef up our taxpayer assistance. We want to know that our assisters are giving courteous treatment to the taxpayers of this country. We want to know that they are giving accurate answers. We want to know that they are giving complete answers, giving the taxpayers everything they need to meet their responsibility under the law. Very shortly, we will be able to look at that data and make the kinds of corrections that we think are important.

The big thing about this system is that we will be able to change what is happening earlier than ever before. Historically, our information came too late to really change what was happening during the current filing season. Now, we will be in a position to do something about that quite early.

Our plans for the future with this system include extending the system into our account notice and "where is my refund" areas, so that we can test how well we are doing in those areas also.

I am convinced that our people are committed to providing our customers with courteous, quality answers. However, I am concerned that the complexity of the law and the volume of change are going to provide ample opportunities for us to make mistakes; and we are committed to getting those mistakes corrected.

As the Commissioner indicated, we are involved now with the Ad Council and have taken some of their materials and are using them with good response from the public. We also have in place a great range of taxpayer education materials and programs that are assisting the taxpayers to get the job done in meeting their own tax responsibilities.

Among these are our walk-in services, our outreach sessions, our volunteer income tax assisters, our tax counseling for the elderly, and the Understanding Taxes Program. This last one, Understanding Taxes program, is a program designed to teach high school students a little bit about our tax system in this country and provide them enough knowledge so that they can file a Form 1040EZ.

Last year more than 25,000 schools and 3.5 million students were involved in that program, and we expect similar enrollment during this next 2 or 3 months. So, this is certainly a worthwhile endeavor.

Our efforts with the Ad Council are going to be year round; they are not just for the filing season. We will be using Ad Council materials and be working with them in order to publicize the Internal Revenue Service's message throughout the year so that people will understand more about what is going on.

One of their efforts will be to help us enlist volunteers in order to bring our message to more people. All of our TV, newspaper—all of our media efforts—are being met with great success this year. We have had media—print media particularly—use more of our ads and more of our tax supplements than we have ever seen before. We are very pleased about that. I think it is a testimony to the quality of the product, the salesmanship of our staff, as well as the interest that the public has in the topic at hand.

Currently, in taxpayer service, the toll-free telephone system is the place where most of the action is; and my most recent statistics indicate that we have received 5.8 million telephone calls to date. That is about 400,000 calls more than at the same time last year.

We have plans in place to take care of that increased volume. We have the people in place; we have the telephone lines additional telephone lines--available so that the taxpayer who tries to call us is not going to be met with the historical difficulty of getting into the system.

Senator PRYOR. Mr. LeBaube?

Mr. LEBAUBE. Yes?

Senator PRYOR. Let me do this, with your permission. All of those taxpayer services that you would like to list can be put in the record. I would like to start asking a few questions, if I might. Do you have any additional comments that you would like to state orally rather than just placing them in the record? I think some of the questions that I will ask will give you the opportunity to expand on some of those areas.

Commissioner **Gibbs**. Would it be all right, Mr. Chairman, if we just switched over and let Mr. Murphy finish up the testimony and then continue with questions?

Senator **Pryor**. That would be fine.

Commissioner **Gibbs**. He will shorten it.

Senator **Pryor**. And then I would like, especially on the telephone issue, to ask a few questions about that, if I might of Mr. LeBaube?

Commissioner **Gibbs**. Certainly.

Senator **Pryor**. Mr. Murphy?

STATEMENT OF MICHAEL J. MURPHY, SENIOR DEPUTY COMMISSIONER, INTERNAL REVENUE SERVICE, WASHINGTON, DC

Mr. **Murphy**. All right, Mr. Chairman. I will be very brief. First, I would like to say that we are very confident that the people and the procedures are in place to have another successful filing season.

We have about 38,000 employees that we will have at peak in our service centers, and this compares to about 35,000 from last year. Of those 38,000, about 15,000 would be newly hired employees. That, too, is quite similar, Mr. Chairman, to where we were last year at this time; and as you know, we had a very successful year at that.

We took four steps really ~~in this~~ preparation. First, we made sure our manuals were revised, and they were provided to the centers well in advance. Second, our computer programs were revised, reviewed, and tested very early. Third, early in the program, we replaced many of the antiquated terminals, and these of course are the terminals that would be needed to update and to retrieve information. Fourth, our adjustment and unpostable inventories have been reduced. Although it is early in the year, Mr. Chairman, our errors are down, and our computer system seems to be working well.

Enough on the planning. Let me say a few things about monitoring and contingency plans.

We get a weekly report, Mr. Chairman, of inventory levels for each service center, and this is provided to us in a computerized manner through a management information system.

We also make two weekly conference calls Mr. Chairman, to identify trends and problems. One of those is with our Regional Tax Reform Coordinators and our Public Affairs Officers. We also have a second call made among executives who are in charge of taxpayer service, returns processing, and computer operations. One of the subjects they discuss is staffing; they compare schedule versus what the actual performance is out there.

And certainly, we do anticipate problems. We have experienced technical personnel and additional phones that are available in the case of problems.

In our tax forms distribution area, we have a backup organization in Florence, Kentucky in case of problems with phone service for forms distribution.

In our service centers, Mr. Chairman, we have backup in the event our receipt patterns change. This of course includes workload transfers. In system capacity, we even have a contingency plan.

As the Commissioner mentioned, Internal Audit is monitoring service centers processing, taxpayer service, forms distribution; and they are really watching all the controls that we have in place to see that they do exactly what we are expecting them to do.

An added feature, Mr. Chairman, is through our Taxpayer Ombudsman. We have asked the Ombudsman, through communications with Problem Resolution Officers in the field, to act as an early warning system to us in the event they see problems, including issues of taxpayer concern that can be passed onto us just as soon as possible.

Finally, Mr. Chairman, as the senior career official in the IRS, I would like to report to you that the employees in the national office and in the field have really stepped up and they are energized over the challenge that tax reform brings.

They are committed to fixing problems when they occur, and they are also committed to putting quality up front in the planning process. They really want to do a good job, and they recognize that the taxpayers—their customers—are entitled to courteous, accurate, and timely service.

In closing, Mr. Chairman, I would just like to say to you that it really is an exciting time to be working for the Internal Revenue Service; and it really doesn't matter whether you are working alongside the Commissioner in setting policy or whether you are out in the field where you are up front dealing with the taxpayers and carrying that policy out. I appreciate the opportunity to chat with you this morning.

Senator PRYOR. Mr. Murphy, thank you. Mr. LeBaube, thank you. Mr. Commissioner, do you have any comments at this stage?

Commissioner GIBBS. Mr. Chairman, why don't we go to your questions?

Senator PRYOR. Thank you, Mr. Commissioner.

First, so the record will note, a year ago in January 1987, Mr. Gibbs, my colleague from Texas, the chairman of the Senate Finance Committee, the Honorable Lloyd Bentsen called me on the telephone one day and said:

"David, I have got some good news and some bad news for you." I said, "Mr. Chairman, give me the goods news first." He said, "You are going to be chairman of one of the subcommittees of the Finance Committee."

I envisioned a chauffeur-driven limousine, a chandeliered office, and a number of new staff members I could add to my staff. I have gotten none of the above, I might say.

And then the bad news he gave me was that I was going to be chairman of the subcommittee with oversight over the Internal Revenue Service, which I want you to know I did not ask for.

For this past year, I have been absolutely—I don't want to say enthralled—but I must say very, very involved, and very interested in looking at the relationship between the taxpayer and the tax collector; and it has been a tremendously educational experience for me, and I think for other members of my staff.

First, I don't throw a lot of bouquets to the IRS. Mr. LeBaube, I want to throw you a bouquet. Last week, when I was in Arkansas, I assigned eight members of our staff—our personal staff in Washington—to use this time in calling several regional offices of the IRS around the United States.

They were also to dial the 1-800 numbers for taxpayer services. The good news was that not one staff member who discussed a particular problem—and we had various scenarios; IRA deductions, moving expenses, dependent filing—not one staff member on my staff encountered anyone on the other end of the line except a very courteous, friendly IRS employee who was almost going overboard wanting to help. That was the good news.

The bad news was that many, many times our staff could not get through to the IRS because of a busy signal. I know what that load is; I know what the tremendous workload of those people might be at this time. I also want to applaud you, Mr. LeBaube, for having those people in that taxpayer service division work on George Washington's birthday yesterday, and also working now on Saturdays for the benefit of the taxpayer.

There was not one discourteous person. In fact, our staff when they started this exercise assumed there would be some Darth Vader type person who they would talk to on the other end of the line with the Internal Revenue Service. [Laughter.]

That was not the case. They were extremely courteous. The problem was their inability to reach those people with the facts and with the proper advice for our staff, and I can only assume the taxpayer.

So, I want to say that we have a real problem. I don't know whether the answer is more telephone lines, whether it is bringing in volunteers, or whether it is talking to AT&T or whoever has the contract for the Internal Revenue Service telephone system; but we have a real dilemma there, and I think it is going to get worse as we get closer to April 15.

In a moment, we would enjoy hearing whatever comments you have on that; but I want to applaud you for what you have done there, at least in the type of people—the mentality that they seem to be taking, the attitude that they have about taxpayers. They did not know that these people were from a Senate staff in Washington.

All of those contacted, when contact was made, were extremely courteous.

Now, with that, let me ask a few questions here because I know that many taxpayers would like to know some of this.

In a recent IRS announcement, the Service pointed out a number of areas where taxpayers across the country are making a significant number of errors on this year's 1040 Form. Some are, for example, the elderly taking two exemptions, dependents not checking the proper boxes, and taxpayers mistakenly thinking that all State taxes are not deductible.

In those three areas where there seems to be the probability of more error than not, what is the Service doing to get the word out on these recurring errors? And what effect will these have on timely refunds?

Commissioner GIBBS. Mr. Chairman, as I indicated in my opening statement, we are doing several things. One, we are coordinating with our service centers so that, as the returns are received this year, more than we have done in the past we are reviewing those returns to take a look at where errors are being made.

As a result of one of our quality improvement programs in the service centers, we are actually able on a daily basis to determine the number of errors that are occurring in the returns and whether they are taxpayer errors or whether they are our errors.

And when we find that taxpayers are having problems, we are able to go to the specific line item and actually see what the error is.

Senator PRYOR. Now, how does the Service monitor these situations? On a daily basis; on a weekly basis; on a monthly basis?

Commissioner GIBBS. In the service centers, they are monitored on a daily basis by each one of the directors in our ten service centers. We have programs now in place that permit them to monitor on an almost continuous basis as the returns come through.

Senator PRYOR. If there would be a case, Mr. Commissioner, where an IRS employee gave the wrong information to the taxpayer, what happens at that stage?

Commissioner GIBBS. I don't know that we would know that from the return; but what I have said repeatedly in prior testimony is that, if a taxpayer receives erroneous information from the Internal Revenue Service and it results in additional tax, penalty, and interest, we are not able to waive the additional tax.

We will waive the additional penalty, and as you know, we have a provision that Congress gave us last year that we are taking a hard look at to see whether we have any flexibility with respect to the interest. So, that is something that we would expect to do with taxpayers this year.

If a taxpayer came back and basically showed us that he had received advice and the advice was erroneous and it caused the taxpayer to make a mistake, then we would definitely waive the penalty. We are taking a look to see whether we could waive the interest.

Senator PRYOR. But could you waive the additional tax liability?

Commissioner GIBBS. No, we have no statutory authority to be able to waive the tax.

Senator PRYOR. Don't you think there might be some legislation that would address this?

Commissioner GIBBS. Certainly that is within the prerogative of the Congress; but at the present time, we do have the discretion to waive the penalty. We are trying to see whether the provision that was added in the 1986 act would permit us to waive the interest. We are not sure that it is designed so that we are able to waive the interest; but my point is that, within the limits of the law, we are trying to do as much as we can do.

Senator PRYOR. I was trying to set you up, Mr. Commissioner. I was trying to get you to endorse a section of the Taxpayer's Bill of Rights. [Laughter]

Which sort of deals with this. I know it is a very complex area to work out because I assume you don't keep a tape recording of the advice the tax person or the IRS employee gives to the taxpayer;

but I do think this is an area where we have really got to cooperate in finding some legislation that would grant that benefit and grant that relief in case it was, in fact, an IRS error.

Commissioner GIBBS. I think this is important because this is right to the point. This year one of the things we are encouraging our employees to do, with the test that Mr. LeBaube mentioned—we are not testing simply for accuracy or simply for courtesy; we are also testing to see whether our people actually ask questions to be sure they understand the question that the taxpayer is asking.

To be honest with you, this area is where we have our biggest problem. It is easy for me to sit here and say we will waive penalties; we will try to waive interest if we can; but one of the key issues that comes up, Mr. Chairman, is who made the error. A taxpayer who has received advice—how do we go about sorting out whether they asked the right questions, whether our folks understood, and so forth?

One of the things we are trying to do to address that problem is to encourage our people, before they give advice, to be sure they understand the questions that are being asked. That is something we are doing differently this year.

Senator PRYOR. All right. Now, how much trouble are we having distributing forms out across the country to the taxpayer? For example, as recently as January 17, 1988, in the Arkansas Gazette, we are finding an argument between the Postal Service and the IRS as to where the forms should be. The Postal Service says it is the IRS's responsibility; the IRS is saying that is the Postal Service's responsibility, distributing forms out to the post offices and to the IRS offices. Is this a universal problem?

Commissioner GIBBS. I have the article right here in front of me, Mr. Chairman. I have seen the article.

Senator PRYOR. You have a good clipping service.

Commissioner GIBBS. Frankly, this is the first time I have seen it. Let me explain why.

Senator PRYOR. Yes, sir.

Commissioner GIBBS. Let me give you just a little bit of background about how someone would go about getting a form. Obviously, the first place they could start is with their tax package. If they did not have a form in the tax package, they can pick up the telephone, dial a toll-free number, 1–800–424–FORM, and order the form or the publication. Our turn-around time within our distribution sites on that is averaging about 48 hours.

Actually, once we receive the request by telephone, it is averaging about 24 hours for us to get the forms out. Taxpayers can call one of three sites within the country for the eastern and middle part of the country; and they can call our taxpayer service folks on the West Coast.

My point is that they can order a form over the telephone, if they wish to do that. The other thing they could do is simply write in by mail and order a form that way.

Now, if they want to go down to pick up the form, then they can go to our offices, or they can go to banks, post offices, and libraries. And to give you some idea of the magnitude, this year we have approximately 23,000 banks across the country, 32,000 post offices, and 20,000 libraries that are stocking forms.

In the districts, we have publicized, as in this article right here, what post offices and libraries make the forms available.

That is one of the things we have done this year, to go out and through the media publicize where the forms are made available. I am not aware of why we have had this particular problem with one of the post offices in Little Rock; but that is something, if you would like, that we will be glad to check into and provide a response for the record.

Senator **Pryor**. Thank you.

[The prepared information follows:]

AVAILABILITY OF TAX FORMS IN LITTLE ROCK, ARKANSAS, POST OFFICES

Re Arkansas Gazette newspaper article of January 17, 1988

The Newspaper article is correct in asserting that distribution of tax forms at postal facilities in Little Rock is limited; however, since publication of that story, the West Capitol Street post office has itself begun distributing forms. The reason that more post offices in the Little Rock area do not now carry tax forms is that they opted not to volunteer for our "Bank, Post Office and Library" distribution program (BPOL), despite our efforts to publicize the program and encourage its use.

On December 18, 1987, IRS sent a letter to the postmasters of over 40,000 post offices throughout the United States, in an attempt to recruit more facilities to the program. This action followed the publication of an article in the U.S. Postal Service Bulletin on December 10, which explained our BPOL program and encouraged more widespread participation. The marketing department of the USPS fully endorsed our effort. As a result of our campaign, we were able to enlist the support of more than 4,000 additional post offices, bringing the current total to over 25,000 accounts. One of the new participants is the West Capitol street office.

The program is strictly voluntary. While we encourage participation, we must also advise local postmasters that we cannot compensate the USPS for any additional expenses they may incur in making the forms available to the public. However, we attempt to support the participants in every way possible, as they provide us valuable assistance in achieving our forms distribution goals. To encourage maintenance of adequate inventories, we offer a toll-free telephone line that participants may use to re-order forms and publications, should their stocks run low.

Although not all post offices in Little Rock are participating in the BPOL program, there are several other outlets in the West Capitol Street area (zip code 72201) that do stock tax forms. One site is the Federal Building itself, which is right next door to the post office mentioned in the article. Other nearby facilities are:

Savers Federal Savings and Loan, 320 West Capitol Street; First Federal of Arkansas, 401 West Capitol Street; State Library Services, No. 1 Capitol Mall; Clerk in Charge, State Capitol Station—USPC; Union National Bank, Annex Building, Fourth and Main; First Commercial Bank, Capitol and Broadway; and Central Arkansas Library System, 700 Louisiana.

The BPOL program attempts to ensure that tax forms and publications are readily available for walk-in service at various sites in local areas throughout the country. We advertise the service, recruit participants and monitor the level of coverage in each locale. If a given area appears to be underrepresented, we again contact non-participating banks, libraries and postal facilities, hoping to establish additional outlets. Our goal is to have an adequate number of well-stocked distribution sites in each area; that may mean, as in Little Rock, that the Postal Service is not heavily involved, but other local facilities should always be available to help provide necessary service.

Senator **Pryor**. Mr. Commissioner, I think it would also be helpful to this committee if we—this committee—would have the opportunity to have shared with us your weekly updates that you are sending out and compiling not only on compliance but errors and propensity for errors in the tax forms. I think it would be helpful for us on this committee to have that information if that is possible on a weekly basis.

Commissioner **Gibbs**. Certainly. We can get you whatever information you would like to have.

Senator **Pryor**. Thank you, Mr. Commissioner.

Now, you have mentioned that if a taxpayer can't get forms, to call an 800 number or to write in. Now, is there a monitoring process of how many taxpayers are calling 1-800 numbers of the Internal Revenue Service and not being able to get through to the proper officials? Do you monitor this?

Commissioner **Gibbs**. Yes, we do. We monitor it in several different places. The number to call and order the forms and publications is monitored, and we are running at a service level in excess of 90 percent for the filing season, and I think for the fiscal year it is even higher than that. I think it is over 95 percent. That is, in terms of your ability to get in on the first or second call to us.

The level of service is quite high when you are calling the 1-800-424-FORM number. If you are calling taxpayer service, that toll-free number is 1-800-424-1040. The level of service there is at about 85 percent, which is basically what we had projected for this year. That means that the ability to get in on the first or second call is about 85 percent.

Now, that is an average, Mr. Chairman. One of the things that we are doing here to try to help taxpayers is to go to extended hours—start earlier in the morning, go later in the evening, and, also on Saturday—and then let people know the hours of the day that they can call when they are more likely to be able to get to us, if they can call during those hours.

There are certain peak hours that, if you call us, you will have more difficulty getting through to us on the telephone in taxpayer assistance; we recognize that.

Senator **Pryor**. This morning when I was hearing a report from my staff about their calls to the IRS out across the country, I said: Let me try to do this. So, at 9:28 a.m., I started dialing some 1-800 numbers in other offices. This was at 9:28 a.m.; I think at around 9:50 a.m., I reached my first number.

Now, this is a situation that I think we are really going to have to look at. It is going to cause a lot of frustration, and I; think we have to be very careful about possibly looking toward beefing up that telephone service.

Once again, I applaud you for having those taxpayer service people on the job even on Saturdays and Federal holidays. That is a service that I do not think the IRS has performed in the past. I stand to be corrected on that.

Commissioner **Gibbs**. Mr. Chairman, I would like to refer you to the February 4 article in the Arkansas Democrat in Little Rock, entitled "IRS Assistance Just a Phone Call Away." It deals with this issue, and it tells people that Mondays and Tuesdays in the morning are among our highest traffic days because of the weekend.

Again, I would be delighted with the additional funding to increase even further the level of service that we are able to provide on the telephones. However, it is very much a cost sensitive area from the standpoint of appropriations.

Senator Pryor. Mr. Murphy mentioned just a few moments ago the fact that 15,000 new IRS employees have been hired since when?

Mr. Murphy. That would be for the service centers, Mr. Chairman. That would have been in preparing for this filing season. As far as the specific date, I am not sure.

Senator Pryor. Are these part-time employees or full-time employees?

Mr. Murphy. These are seasonal employees, but they are trained early; and then they are available for whenever the workload demands are such, they would be on board.

Senator Pryor. Now, as I understand it, in December in the reconciliation and continuing resolution battle, the IRS received new employees under this legislation. Is this correct?

Commissioner Gibbs. No. Mr. Chairman, the $58 million for taxpayer assistance that was originally in the bill did not make it through the appropriations process, not all of it; some of it did. Let me not overstate. Some of it was provided, but the full $58 million was not.

On the other hand, Mr. Chairman, the committee has urged me—and I have taken their urging—to allocate as much of the funding as is necessary for this filing season. And I have done that; we will spend at least an additional $58 million on tax services this year.

Senator Pryor. And most of that would be going to taxpayer service?

Commissioner Gibbs. When we speak of taxpayer service, it is not just the telephones. It would include the service centers; it would include our tax distribution sites, whatever is necessary to provide the education and assistance to the taxpayers during the filing season.

Senator Pryor. I think the record ought to indicate that you were mandated to go out and collect how many more tax dollars?

Commissioner Gibbs. A good number.

Senator Pryor. $1.8 billion as I recall.

Commissioner Gibbs. I think it was $1.6 billion additional dollars. We will also do that, but we are going to great lengths this year particularly to balance our service with our compliance activities.

Senator Pryor. Do we have any backlogs right now of requests for particular forms that are not available?

Commissioner Gibbs. Yes, we do, Mr. Chairman. The forms are basically out there. The only backlogs we would have would be a situation where the demand had been so heavy that we are having to reprint forms. And by the way, we are having to do that earlier than we have before.

We think that the file-early campaign has been effective because we have had more requests for our forms and publications earlier this year than ever before. The only backlog for forms that I am aware of would be ones where we are having to reprint forms where we are out and they are being reprinted.

Now, for some of our publications, we do have a situation where, because of the lateness of the 1987 Revenue Act and also some of our own regulations, some of those publications are in the process of being delivered; and there are back orders again to our distribution sites.

I believe that by the end of this week and into next week, we will have most of the backlogs addressed from the standpoint of having our forms and publications out there.

Senator PRYOR. Once again, back to last week in my State of Arkansas, traveling around the State, I don't think—and I am trying to reconstruct—that I had one taxpayer come up to me and say: Senator Pryor, I sure do thank you for lowering my tax rates. I don't believe I can recall hearing that.

They do come up and say: What is all this confusion? How do I fill this out? I would never advise anyone on that.

One question that I am being asked a great deal about—and maybe the three of you might want to comment—Why is a 5-year-old child now given a Social Security Number? What is the reasoning?

Commissioner GIBBS. The reasoning is because Congress, when it passed the 1986 act, basically provided that, if a taxpayer is claiming a child or someone else—a parent, for example—as a dependent, then it was necessary for the person who is filing the return to include the Social Security Number of each dependent claimed on the return over the age of four.

The reason for that, when you look at the committee reports, was a concern with respect particularly to situations of divorce or separation where couples were filing returns, only one of whom could claim the children as dependents properly; and yet both were doing it.

The idea was to provide the Internal Revenue Service with the Social Security Number, in order to be able to match the information on the children claimed as dependents to be sure that only those who were entitled to the dependency exemptions were claiming them.

You had other situations which were much more limited, but you had some situations where people were frankly listing things other than dependents, pets and that type of thing.

Senator PRYOR. Now, this was not an IRS decision? This was a decision by the Congress?

Commissioner GIBBS. It was a Congressional decision that was in the 1986 act.

Senator PRYOR. And you are just carrying out that mandate?

Commissioner GIBBS. That is correct.

Senator PRYOR. Now, you had a lot of bad publicity, I might say, last year and the year before on the IRS coming in and seizing a child's bank account—we call that the "piggy bank issue," I guess.

Now, with this child having a Social Security Number, would tend to prevent those sorts of seizures or levies against that child's bank account?

Commissioner GIBBS. Again, it will if the parents, when they open the bank accounts, are using the child's Social Security Number. What we found when we got into that area, Mr. Chairman, was that it was not a situation where our agents or our employees were intentionally seizing children's bank accounts.

Neither we nor the banks knew that the accounts belonged to the children because, when the parents opened the accounts, they were opening the accounts in their own names oftentimes, or using the parent's and not the child's Social Security Number. The new format that we have gone to—the new process that we are using—indicates that, if we have any name on a bank account other than the taxpayer's name or any Social Security Number on the bank account other than the taxpayer's, then we freeze that bank account for 21 days so we can check it out ahead of time.

Now, with the children getting their Social Security Numbers, if the parents will use those Social Security Numbers on the children's bank accounts, then that will help us in terms of addressing this particular issue.

Senator PRYOR. Are we finding many complaints from taxpayers who are relying on taxpayer services of the IRS about having a Social Security Number for children over 5 years of age? Are we finding many complaints there, or are people accepting this?

Commissioner GIBBS. People seem to be accepting it quite well. Initially—I would say early in 1987 when we were giving a lot of publicity to the issue—there were some questions and concerns raised; but the explanations seemed to suffice. As a result, our research indicates that over 90 percent of those who need Social Security Numbers for their children have, in fact, applied for and received them.

Senator PRYOR. All right. Another question. Mr. Gibbs, you were a very successful practitioner in the area of taxes before you came to Washington. Now, is more and more personal information being required by the Internal Revenue Service about the taxpayer under the new tax forms and during the filing period of 1988 than ever before?

Are we getting too much information about that taxpayer? I think there is a lot of concern about, one, "big brother," and two, that the IRS is going to gather all of this information and that they may not use it in the best way.

Now, do you think we are asking for too much information about the taxpayer?

Commissioner GIBBS. Mr. Chairman, let me back up and say that any information we request has a cost to us as an agency and involves the need to transcribe the information when it comes into our service centers. As a result, we are inclined not to request information unless there is a Congressionally prescribed reason for it.

One of the things that we have attempted to do is to ask only for the tax return information we need and that we can process and use within the budget that we have.

And with the budget constraints that we have, we generally have not tended to ask for anything that, one, we can't use and, two, that is not Congressionally authorized.

I assume that the answer to the question you asked was considered by Congress at the time that the laws were passed, recognizing that there would be information required under the provisions that Congress was enacting.

If that is not the case, then certainly we need to address it on an item-by-item basis.

Senator PRYOR. Mr. Commissioner, let me give you an example of something that I am talking about, and it is not in the tax form. It is not a question that you have to answer on your 1040 or whatever.

Since I have been involved in this issue, I guess somewhere between 9,000 and 11,000 letters have come to me about the Internal Revenue Service. Now, let me just say this: some people don't want to pay any tax, period. Some people just don't want to pay taxes; they think taxes are immoral and illegal.

Most people, I think, want to pay their taxes. They want to comply with the laws of this land. And I would say that percentage would be in the very high 90's; but more and more, I am getting—and I am reading through a lot of these letters—and I discovered this recently not only in my own State, but other States that I have been in—taxpayers are writing and letting me know that during an audit or maybe during the collection or levy or seizure process, an oral question is asked by the IRS employee to the taxpayer.

This is the question, and I can't figure out why they are asking it: How much money do you have on you now? How much money are you carrying in your pocketbook? A widow told me recently that she finally got that question about three times from an agent; so, she just took her pocketbook and dumped it all on his desk. I think that is a strange question; I think that is a "big brother" question, and I don't know where that is coming from.

Evidently, more than one of the IRS employees is beginning to ask that, and I don't know why that is happening.

Commissioner **Gibbs**. Mr. Chairman, I don't know the specifics of it. I have heard of it previously in connection with a couple of instances where we were interviewing the taxpayers in connection with examinations.

I did make an inquiry there, and I am told that it is not a routine question. It will occasionally be asked where the agent has reason to believe that the taxpayer is dealing substantially in cash.

And the reason is because all of the research efforts that we and others are doing tells us that when people are dealing substantially in cash, the opportunity for failure—either intentionally or unintentionally—to report all of the income is much higher. You don't have any information reports; you don't have any withholding.

I have been told that only in those situations where the agent feels that someone may be dealing in cash and has substantial amounts of cash on them would the question be asked.

Now, I certainly can't imagine—with the widow—why that question would be asked.

Senator **Pryor**. We used to have a football coach at Arkansas—and he is now at Notre Dame—Lou Holtz, a very famous coach. Lou Holtz had a rule he called the "Do Right Rule." And I think this line of questioning by IRS employees especially when there is no reason to believe that a taxpayer is dealing in high volumes of cash, is a violation of the Do Right Rule.

I just wanted to bring this out in this hearing this morning. That is something that should be looked into.

Commissioner **Gibbs**. Let me comment on something that we are doing, and I think it may be responsive to your question.

One of the things that we are in the process of doing in the taxpayer interview area, where we are talking to taxpayers, is revising our internal procedures, Mr. Chairman. We are also preparing additional training techniques in terms of training our agents with respect to the types of questions that they should be asking at the beginning of audits.

This is certainly something that we will plan to cover in our examination area from the standpoint of both our instructions and also the way we train our people. Mr. Murphy, did you have a comment?

Mr. MURPHY. Yes, Larry. I would just like to add, Mr. Chairman, that we could have this situation come up in examinations, like Larry described, where you are reconstructing income; but it also could come up on a collection matter.

Now, the example you gave of the widow certainly doesn't sound like that, but say a collection employee would be interviewing a taxpayer, and in the process of trying to prepare some kind of a financial statement, there could be a question about cash on hand.

That is the only other instance I could think of where you could see that type of a dialog going on between an IRS employee and a taxpayer.

Senator PRYOR. I think if you want to ask the Mafia or some drug lord that question, IRS is perfectly within their rights; but I think you have to draw the line and urge your employees to be very careful.

That, to me, is a very, very onerous sort of question.

I am going to shift gears just a moment. Let's talk about our walk-in centers here for just a second. What about the walk-in centers? How are they staffed? What is our workload in the centers? And are they meeting the mark?

Mr. LEBAUBE. Mr. Chairman, we anticipated a greater volume of traffic into our walk-in areas this year; and as a result of that, we have done several things.

First of all, we have opened 50 new walk-in sites across the country. We have added staff and we have increased the hours that walk-in areas are open. In some places, we would have a walk-in area open only one day a week. We have increased that now to as many as three and, in some cases, five days a week. We have tried to be available in more places with more help for longer hours than we ever have been.

Senator PRYOR. I think one of the reasons that the walk-in traffic—and I say this with due respect because you have got a tough job—is not what the telephone traffic is that, in a telephone call, I guess a taxpayer can sort of remain anonymous. He doesn't have to tell his name or Social Security Number.

But walking in, it is just human nature to sit there and talk to someone and you are going to introduce yourself and a few more facts might be coming out; and I think there is some fear on the taxpayer's part of his just walking in and talking to an IRS employee.

And once again, I say that this whole mentality of this relationship between the taxpayer and the tax collector has got to be shifted—we have to shift that—from fear to respect.

I will again applaud Commissioner Gibbs. I said recently before 800 tax lawyers—when Mr. Gibbs and I were on a panel in New Orleans at the American Bar Association—and I said that if, Mr.

Larry Gibbs were our Commissioner for life, we might not need a taxpayer's bill of rights; but Mr. Gibbs is not Commissioner for life.

I just think that we have to change that mentality of fear to respect.

Commissioner GIBBS. Mr. Chairman, I must express a little surprise here because, given the number of people that we have been assisting in the walk-in areas, even in the past, and with the expansion that we had this year, certainly they have not seemed to be intimidated in any way.

If anything, our walk-in area is growing. And indeed, we are doing some things this year to try to make it easier and also more pleasant for people who do come in to use it.

For example, I have been to several places where we are putting an IRS employee out with the forms before taxpayers ever get into the taxpayer assistance area to get publications. That employee will also ask questions—to help people with just finding the forms and publications that they want.

Senator PRYOR. But the walk-in traffic is not growing proportionally or anywhere near the rate of what the telephone traffic is.

Commissioner GIBBS. I think that is a function again of funding. We would be delighted to expand our walk-in capability, but in the past, that really has been more a function of what we are able to afford from the standpoint of our appropriations.

We are doing some things this year, though, to test that out. For example, in a number of areas, we are providing taxpayers as they leave with exit interview forms that they can complete. If they wish to tell us who they are, that is fine; if they don't want to tell us who they are, that is fine, too.

We want the information on how good a job we are doing. It is an objectively designed type of thing to find out whether they got their questions answered, whether they were treated courteously, and also whether they are aware of some of our other assistance capabilities.

Again, the message that we are trying to leave is that you are our customer, and we care what you think about the way you have been treated in your walk-in service centers.

Senator PRYOR. Mr. LeBaube, earlier Commissioner Gibbs stated that the 17 percent—and I don't have those figures here—the number of returns is 17 percent below this time last year; but even in the last 10 days, I think, in your subsequent testimony you stated that this gap is closing and we are right at the nine percent rate.

Does this apply to the 1040 which was at 19 percent when you first had a press conference on this issue a couple of weeks back?

Mr. LEBAUBE. The figures that were given were for total returns filed. Each of the three categories of returns—1040, 1040A, and 1040EZ—have different rates. If you will give me a moment, I can get those figures.

Senator PRYOR. Yes, sir. I think that would be helpful, if we could look at the 1040, 1040A, and 1040EZ forms.

Mr. LEBAUBE. For the week ending February 13, 1987 and February 12, 1988, cumulatively from January receipts of Form 1040 were 12.9 percent behind.

Senator PRYOR. All right. That was 19 percent only a week ago.

Mr. **LeBaube**. That is correct.

Senator **Pryor**. We only have the week ending February 5.

Mr. **LeBaube**. I see.

Senator **Pryor**. All right. What was that percent on the 1040?

Mr. **LeBaube**. I am sorry?

Senator **Pryor**. What was that percentage from February 12?

Mr. **LeBaube**. Cumulative from January?

Senator **Pryor**. Yes.

Mr. **LeBaube**. Receipts, 12.9 percent.

Senator **Pryor**. And that would be 12.9—or 13—percent fewer filings than this time last year. Is that what those figures indicate?

Mr. **LeBaube**. That is correct.

Mr. **Murphy**. Mr. Chairman?

Senator **Pryor**. Yes.

Mr. **Murphy**. That figure you brought up before, where you said 19 percent, was—last time as of February 5—22.5 percent. So, that is quite an improvement from one week to the next.

Senator **Pryor**. Now, 1985 was, I guess, in the past a critical year. And when you talk to people in the Internal Revenue Service about 1985, all of you shudder because I guess that was the year when the Philadelphia computer system became unmanageable or broke down or what have you.

Now, we are not headed for anything like that, are we?

Commissioner **Gibbs**. No, Mr. Chairman, we are not. As Mr. Murphy indicated in his testimony, we have done a substantial amount of work this year in terms of projecting what our volumes will be at the service centers. We have staffed for it, and we have contingency plans behind it; but more than anything else, we have a number of new quality improvement programs in our centers.

We really think that with the new quality improvement programs that we have, plus the staffing and the planning that we have done this year, the centers will perform well and smoothly during this filing season.

We have had no problems to date in the centers at all.

Senator **Pryor**. A general statement about our computer system and our computer network: Are we updating that system? There have been a lot of complaints about in the past.

Commissioner **Gibbs**. Yes, sir, we are. We are both doing both a short-term and a long-term update. We are in the midst of attempting to redesign the tax system because we are basically still using 1950s technology in the Internal Revenue Service today.

Senator **Pryor**. Would you say that again for us?

Commissioner **Gibbs**. Yes, I will be glad to. We are basically using 1950s technology today in our service centers. That is to say, we are dependent upon tape. Tape is flown all over the country, and we are not able to provide the people in our taxpayer assistance and our other areas with the same type of access to information they need to do their jobs well, as you would have in most department stores and other service organizations in this country.

That is a function to a very large extent of the fact that we are using horribly outdated technology to process the returns and to handle taxpayer inquiries about their accounts.

We are in the midst of redesigning the tax system to bring it into state-of-the-art type of readiness. That is a longer term project and will probably stretch into the 1990s in order to be able to do that.

It is staged so that it will come on over a period of time, but we are doing that at the present time.

In the meantime, we are also taking a number of initiatives, doing a number of things, to try to make the present system more responsive to taxpayers and also a sounder system from the standpoint of processing the returns and providing the information to people who need it.

Senator PRYOR. What is it going to cost to bring that system up to date?

Commissioner GIBBS. I think the better question is: What is it going to cost one of these days if we don't do it, in terms of our ability to meet the demands of taxpayers for timely handling of their returns, timely answering their questions about their accounts, timely answering the questions as you pointed out with respect to tax information, and so forth.

I think that is really where the cost to the system is today. Trying to make our system a more user-friendly system is I think something that you and I agree upon Mr. Chairman, in order to provide better service to our customers.

Senator PRYOR. Now, in one of the recent issues of The Washington Post, it was reported that refunds so far this year are running, I believe, 20 percent higher. I believe these are your figures, that was compared to the same period last year.

Now, what makes this system work like this, and why has this occurred?

Commissioner GIBBS. Maybe I would ask Mr. LeBaube to respond to that in just a second. We have some updated numbers and it is not quite at the 20-percent level after the last week; but it is still running substantially ahead in terms of the average size of the refund. I Will ask him to give you the updated information on that.

Again, basically we believe that at least thus far, the message has gone out—last year—to taxpayers. They sat down, did their withholding, did their estimated tax payments, so that they would have a cushion of whatever size they determined—not what we wanted. As best we can tell from the early filing information and receipts—which Mr. LeBaube will describe in a second—and also from the standpoint of the gross numbers, it appears that taxpayers, in computing their withholding last year, on the average, have built in a larger, not a smaller, refund for themselves.

Bob, do you want to describe those updated figures?

Mr. LEBAUBE. Yes. Mr. Chairman, on a weekly basis for the same period that I described earlier—February 12 and 11, 1988 compared with 1987—the average refund increased to $782 from $698. That is an increase of about 12.1 percent. Cumulatively for this year, 1988 compared to 1987, it has increased to $743 from $658, a 12.9-percent increase.

We expect that trend to slowly go down in percentage until, by the end of the filing season, we will see probably only a one or two percent increase in the refunds this year over last year.

We expect the average refund to climb to better than $900 by the end of the filing period. Most of this occurs because people do, in fact, adjust their withholding and make their return come out pretty much the way they would like it to come out. A lot of people—although it isn't the best financial planning—do use tax refunds in order to save money.

Senator **Pryor**. Is the average taxpayer in 1988 in this filing season having to fill out more schedules and forms than in previous years? Are there increased forms and increased schedules for the average taxpayer?

Commission **Gibbs**. Let me answer that this way. One of the things that we are projecting this year is that a number of people who in the past had to file the more complicated 1040 are now going to be able to file the 1040A and the 1040EZ And I think that we are projecting nearly three million people will actually move off of the 1040 long form to the 1040A and the 1040EZ.

Also, from the standpoint of the new taxpayers that we will be adding this year, I think a greater percentage of them will be filling out 1040A's and 1040EZ's. So, I would say that the average person is going to find that his or her tax form easier than it has been in the past.

Senator **Pryor**. This time last year, Mr. Commissioner, we did discuss the W-4 Form at length. And by the way, I would like to thank you for your response. You went back; you looked at that form; you changed the form; and you didn't make it simple, but you made it a lot more simple than it had been. So, let me thank you for that.

Now, could you describe for me exactly the IRS's announced policy on the imposition of penalties for underwithholding during 1987 in view of the confusion that we had for about six months over last year's W-4 Form?

What is the policy of the IRS with regard to those penalties?

Commissioner **Gibbs**. The policy of the Internal Revenue Service with respect to the estimated tax penalty, is that we will waive any portion of that penalty for 1987 that is attributable to wages, salaries, and other income subject to withholding.

Senator **Pryor**. Does the taxpayer know of this policy? And if not, how are you beginning to get that information out? Or are they already getting it?

Commissioner **Gibbs**. In several different ways. We certainly have had very active media efforts; and I would say that of all of the messages that we have communicated in the last six months, I think this is one that probably received the widest dissemination by the media and the press in this country.

The other thing is that we have designed the form that a taxpayer would typically use to compute the estimated tax penalty so that, on the face of the form, this information is conveyed to them. You really need that form to compute the penalty. So, by adding that on the face of the form, we think that they would be informed of it if they had not heard of the policy in the media. It is also something where we are coming back to, again and again and again, with our Public Affairs Officers—the public relations people—to advise people of this on a continuing basis.

Senator **Pryor**. Speaking of penalties, Mr. Commissioner, on March 14 in this room—I don't know what time of day—this subcommittee will reconvene; and we will look at the 132 penalties that the Internal Revenue Service can now impose sometimes, in my opinion, very arbitrarily—upon the taxpayer.

I frankly don't know where all those penalties came from. I am not sure the Congress mandated them all; maybe we did. Maybe the IRS, over the years of interpreting what the Congress meant, developed those penalties.

But on March 14, and I think this will be the first time that the House or the Senate has really looked at this issue, we are going to begin looking at the penalty issue, and where they came from, what purpose they are serving, and how arbitrary they might be.

I am going to be honest with you. I am afraid we are now using penalties as a form of deficit reduction. I think that is very poor tax policy; and if that is the case, that is our fault, not yours, Mr. Gibbs. That is the Congress' fault.

Commissioner GIBBS. Mr. Chairman, I am delighted that you are having this hearing. I have been asking for over a year that we take a hard look together; and I don't mean with you—but with Congress, Treasury, and the Internal Revenue Service and the administration—at the proper role and functioning of penalties in our tax system.

It is something that we within the Internal Revenue Service have questions and concerns about, and I am very pleased that you are holding the hearings.

You may also know that we have an internal task force that is made up of Internal Revenue Service personnel and representatives from the Treasury.

In addition, we have also established contacts and are having an ongoing dialog in connection with the project with the professional organizations as well and the tax-writing committees. There is a great deal of interest and concern out there, not only among taxpayers, but also practitioners and the Internal Revenue Service about the penalty area.

So, I look forward to those hearings.

Senator PRYOR. Very good. I have no further questions at this time. Mr. LeBaube or Mr. Murphy, would you like to make any final comments, any summary? Then, we will give Mr. Gibbs a final opportunity to do so, should he desire. Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman. I would just like to say that I agree with what you said about Commissioner Gibbs as being the type of commissioner that you hope would never go away. [Laughter.]

But I will also tell you that as a senior executive of the Internal Revenue Service, I will accept as a challenge that the rest of the organization can live up to the reputation that the Commissioner has and carry forward with the plans and changes that are being put in place in the Internal Revenue Service.

I also thank you for the opportunity to appear here today.

Senator PRYOR. Thank you, Mr. Murphy. Mr. LeBaube.

Mr. LEBAUBE. I would like to share, Mr. Chairman, Mr. Murphy's comments. As I started out by saying this morning, I am the newly appointed Director of Taxpayer Services, and it is because of these two gentlemen that I am the Director of Taxpayer Service. It is the things that they are trying to do and the policies that they are putting in place that brings me out of the field into the national office. And I sincerely hope that those policies will continue. As long as I am with the Service, I will do my best to see that that does occur. I thank you for the opportunity to appear and testify.

Senator **Pryor**. Thank you, Mr. LeBaube. Before Mr. Gibbs gives his concluding remarks, I would say that a week ago Friday I had the opportunity—I don't want to say the pleasure—but I had the opportunity to go out and visit with 400 tax collection officers of the Internal Revenue Service at the Shoreham Hotel.

I was introduced promptly at 8 a.m.; and I must say it was a little bit chilly there for a while, but it got warmed up as we went along.

Finally, I think both of us—me representing the institution of Congress and those ladies and gentlemen representing the tax collector—when I finally tried to get my point across, I hope it was successful. We are all in this business for the same reason, and that is to serve the people.

We are all having a problem right now, and that is a credibility problem with the American public. IRS is having this problem; the Congress is having this problem. I will willingly admit to our credibility problem and, I guess, diminishing trust.

Finally, I also feel that many of these officers have some of the toughest jobs there can be. I can't imagine driving into work every morning, knowing that you were going to seize someone's truck or furniture or a levy on someone's account; I just can't imagine this. This is a tough, hard job; but the issue, I think, is not whether we have to collect money. We know we have to collect money for this system of government. It is how it is collected, and that is what this hearing is about.

This is an update on the state of the 1988 tax collection methods and system. I want to thank all of you. Mr. Gibbs, I am going to give you the final word.

Commissioner **Gibbs**. Thank you, Mr. Chairman. You know, as tax collectors, I don't think it is appropriate to think of our jobs in terms of looking for love; we are not going to be loved as tax collectors. You have made that point very well.

But if we do our jobs wisely and well, I think we can expect to receive—indeed we need—respect and confidence in order to make our tax system work properly. Balancing compliance with service, finding the people who are not complying with their tax obligations when, as you point out, the overwhelming majority of Americans do, I think is very important in terms of the credibility of the system.

I think, as we have changed the law 19 times in 23 years, I think service becomes equally as important, to help people who are trying to comply with their tax obligations. That is one of the reasons that we are emphasizing in this filing season service in the Internal Revenue Service, and emphasizing that the people with whom we deal—the taxpayers, the practitioners, and others—should be seen and treated as our customers.

We are doing that not only on the service side, Mr. Chairman, but we are also doing it on the compliance side; and that is tougher. It is tougher to visualize what it means when we talk about taxpayers as customers in the collection and examination and criminal investigation areas, but it seems to me it sends out the right message in terms of the emphasis on the quality because, again, it comes back to how we do our jobs.

It is not just the bottom line of what we do, and certainly that is important, but how we do it. And I feel that probably the biggest thing that the Internal Revenue Service has going for it is the quality of its people—people like Mike Murphy, people like Bob LeBaube, people who are willing to come in from the field to the national office and do some very, very difficult jobs and do them well.

That is what we are about within the organization in terms of the emphasis on quality and service.

And I thank you for the opportunity this morning to at least have a preview of what the filing season is going to be like. Mr. Chairman, we are going to have some problems during this filing season. It is not going to be because we are not trying. It is not going to be because we don't have the things out there to get the quality in customer service. It is going to be because, as we make the attempt to cope with this massive new law, all of us are going to go through a learning process—taxpayers, practitioners, and IRS employees.

I thank you for your time and patience today. I hope we will have the same time and patience as the filing season wears on, with whatever it brings. Thank you.

Senator Pryor. Mr. Commissioner, Mr. Murphy, Mr. LeBaube, thank you all; and I look forward to our March 14th hearing.

Commissioner Gibbs. I will be looking forward to it.

Senator Pryor. The hearing is adjourned. Thank you.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

APPENDIX

ALPHABETICAL LIST AND MATERIAL SUBMITTED

Statement of

Lawrence B. Gibbs
Commissioner of Internal Revenue

SUMMARY OF MAJOR POINTS

THE INTERNAL REVENUE SERVICE IS READY FOR THE CHALLENGES OF TAX REFORM AND THE 1988 FILING SEASON. IN PREPARING FOR THIS YEAR, WE HAVE PLACED NEW EMPHASIS ON PROVIDING QUALITY SERVICE TO OUR CUSTOMERS -- THE TAXPAYING PUBLIC.

IRS HAS WORKED HARD TO PREPARE BOTH OURSELVES AND TAXPAYERS FOR THE SWEEPING CHANGES OF TAX REFORM. WE HAVE PLANNED EXTENSIVELY AND TRAINED OUR EMPLOYEES THOROUGHLY ON THE NEW LAW. DRAFT FORMS WERE RELEASED TO THE PUBLIC EARLIER THAN EVER BEFORE AND A MAJOR TAXPAYER OUTREACH CAMPAIGN WAS UNDERTAKEN TO ADVISE TAXPAYERS ABOUT THE NEW RULES.

IRS IS OPERATIONALLY READY FOR THE 1988 FILING SEASON. WE'RE READY TO ANSWER TAXPAYER QUESTIONS, TO SEND THEM THE FORMS AND PUBLICATIONS THEY ORDER, AND TO PROCESS THEIR TAX RETURNS AND PAY THEIR REFUNDS.

WE HAVE ANALYZED OUR PLANS AND PROGRESS FROM EVERY POSSIBLE PERSPECTIVE. TO ENSURE THAT WE WERE READY, I ASKED MY OWN INTERNAL AUDIT STAFF, MY SENIOR EXECUTIVES AND BOOZ-ALLEN & HAMILTON INC., TO REVIEW OUR PLANS AND PROGRESS. THEY ALL HAVE CONCLUDED THAT IRS IS PREPARED FOR THE DEMANDS OF THE FILING SEASON.

THERE ARE SOME UNKNOWNS ABOUT THE FILING SEASON. MORE TAXPAYERS MAY FILE LATER THAN EVER -- THAT'S WHY IRS HAS STRESSED FILING EARLY AND ACCURATELY IN OUR AD COUNCIL CAMPAIGN. MOST TAXPAYERS SHOULDN'T BE UNDERWITHHELD OR UNDERPAID, BUT THERE COULD BE POCKETS OF UNDERWITHHOLDING AMONG CERTAIN GROUPS.

WE ARE CONTINUING TO MONITOR FILING PATTERNS AND TO LOOK FOR AREAS WHERE TAXPAYERS MAY BE HAVING PROBLEMS. WE HAVE SET UP COMMUNICATION NETWORKS AND CONTINGENCY PLANS THAT WILL ALLOW US TO SHARE INFORMATION ON PROBLEMS OR TRENDS AND TO REACT QUICKLY WITH NEEDED ACTIONS OR PUBLICITY.

WE CAN'T PROMISE A PROBLEM-FREE FILING SEASON. BUT THE LEVEL OF OUR PREPARATION DEMONSTRATES OUR COMMITMENT TO QUALITY AND CUSTOMER SERVICE.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO BE HERE TODAY TO DISCUSS WITH YOU WHAT WE HAVE DONE AND WHAT WE ARE DOING TO MEET THE CHALLENGES OF TAX REFORM AND THE 1988 FILING SEASON.

WITH ME TODAY ARE MICHAEL MURPHY, SENIOR DEPUTY COMMISSIONER, AND ROBERT LEBAUBE, DIRECTOR OF OUR TAXPAYER SERVICE DIVISION. WE WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MIGHT HAVE FOLLOWING OUR ORAL STATEMENTS.

I. INTRODUCTION

EIGHTEEN MONTHS AGO, WHEN I BECAME COMMISSIONER OF THE INTERNAL REVENUE SERVICE, I JOINED AN AGENCY THAT WAS ALREADY IMMERSED IN THE CONSIDERATION OF TAX REFORM. THROUGHOUT THE 30-MONTH DEVELOPMENT OF TAX REFORM LEGISLATION, IRS TRACKED EACH PROPOSAL TO ASSESS ITS POTENTIAL IMPACT ON OUR OPERATIONS AND ON OUR CUSTOMERS - THE AMERICAN TAXPAYERS. SINCE ITS OCTOBER 1986 ENACTMENT, IMPLEMENTATION OF TAX REFORM HAS BECOME OUR NUMBER ONE PRIORITY.

IMPLEMENTING THE LARGEST PIECE OF TAX LEGISLATION IN OUR NATION'S HISTORY POSED AN EXCEPTIONAL CHALLENGE TO THE IRS.

RATHER THAN VIEW THIS ENORMOUS CHALLENGE AS A CHORE, HOWEVER, THE IRS HAS FOCUSED ON TAX REFORM IMPLEMENTATION AS A RARE OPPORTUNITY TO ENHANCE OUR IMAGE AS TAX ADMINISTRATORS AND TO PUT INTO PLACE OUR NEW EMPHASIS ON IMPROVING THE QUALITY OF OUR PRODUCTS AND SERVICES TO OUR "CUSTOMERS" - THE TAXPAYING PUBLIC.

IN PREPARING FOR TAX REFORM AND THE 1988 FILING SEASON WE FOCUSED ON BETTER PRODUCTS AND SERVICES BY:

- LETTING TAXPAYERS AND PRACTITIONERS KNOW EARLY WHAT THEIR TAX RETURNS WOULD BE LIKE THIS YEAR,
- DEVELOPING MATERIALS TO EXPLAIN THE NEW TAX LAW CHANGES TO TAXPAYERS,
- BELTING UP OUR TAXPAYER SERVICE PROGRAMS TO ASSIST TAXPAYERS, AND
- MAKING SURE OUR SERVICE CENTERS WERE READY TO ACCURATELY PROCESS TAX RETURNS AND TIMELY CERTIFY REFUNDS.

IMPROVING THE QUALITY OF PRODUCTS AND SERVICES IS WHAT IRS IS ALL ABOUT THESE DAYS AND IT DOESN'T APPLY JUST TO TAX REFORM AND THE 1988 FILING SEASON. IRS' NEW COMMITMENT TO QUALITY BEGAN WITH THE CAREER EMPLOYEES BEFORE I ARRIVED AND WILL CONTINUE LONG AFTER I'M GONE. I LOOK FORWARD TO DESCRIBING OUR OTHER QUALITY IMPROVEMENT INITIATIVES AT THIS COMMITTEE'S APRIL HEARING ON THAT SUBJECT, AND I WANT TO COMMEND THIS SUBCOMMITTEE FOR ITS INTEREST IN AND SUPPORT OF OUR QUALITY PROGRAMS.

TODAY, THE INTERNAL REVENUE SERVICE IS AS READY FOR THIS FILING SEASON AS WE'VE BEEN FOR ANY OTHER IN MODERN HISTORY. WE HOPE THAT THE AMERICAN PUBLIC IS READY AS WELL. HAVING SAID THAT, IT WOULD BE UNREALISTIC TO PROMISE THE SUBCOMMITTEE AND THE NATION'S TAXPAYERS A FLAWLESS FILING SEASON. MISTAKES WILL BE MADE BY TAXPAYERS AND BY THE IRS.

WE'VE TRIED TO MINIMIZE OURS BY PLANNING THOROUGHLY AND BY BEING ABLE TO ADJUST TO ANY PROBLEMS THAT MIGHT ARISE THIS YEAR. WE HAVE ALSO DONE EVERYTHING WE COULD THINK OF TO PREPARE TAXPAYERS FOR THE MANY CHANGES IN THE NEW LAW.

MY WRITTEN TESTIMONY TODAY OUTLINES THE ACTIONS WE HAVE TAKEN TO GET READY FOR THIS FILING SEASON AND TO HELP TAXPAYERS GET READY. IT ALSO DESCRIBES OUR CONTINGENCY PLANS IF THINGS DON'T GO EXACTLY AS WE PLANNED AND THE REVIEWS OF OUR PLANS BOTH WITHIN THE IRS AND BY OUTSIDE EXPERTS. BASED ON THESE REVIEWS, I'M VERY CONFIDENT ABOUT THIS YEAR'S FILING SEASON. I'M ALSO PROUD OF THE EFFORTS MADE BY OUR EMPLOYEES AT ALL LEVELS OF THE ORGANIZATION TO GET READY FOR THE FILING SEASON.

II. PREPARING FOR THE FILING SEASON

A. TAX REFORM IMPLEMENTATION

OVERALL, I BELIEVE THAT TAX REFORM HAS FASHIONED A FAIRER TAX SYSTEM. IT'S NOT PERFECT. THE NEW TAX CODE IS NOT WITHOUT ITS COMPLEXITIES IN SOME AREAS, BUT TAX REFORM DOES PROVIDE A BASIS FOR RESTORING PUBLIC CONFIDENCE IN THE WORLD'S MOST SUCCESSFUL VOLUNTARY TAX SYSTEM. TO IMPLEMENT THIS HISTORIC NEW LAW, IRS HAS ATTEMPTED TO ENSURE THAT PROMISE OF FAIRNESS AND TO DEAL WITH THE MANY CHANGES IN A MANNER WHICH REDUCES TAXPAYER CONFUSION AS MUCH AS POSSIBLE.

1. IMPLEMENTATION PLAN

MONTHS BEFORE PRESIDENT REAGAN SIGNED THE TAX REFORM ACT OF 1986 INTO LAW ON OCTOBER 22, 1986, IRS WAS ALREADY CHANNELING ITS ENERGIES TOWARDS DECIDING HOW THE PROSPECTIVE BILL WOULD BE ADMINISTERED. SINCE ITS ENACTMENT SIXTEEN MONTHS AGO, WE HAVE HAMMERED OUT THE FINE DETAILS OF IMPLEMENTATION.

WE HAVE REVIEWED EACH PROVISION OF THE NEW TAX LAW TO DETERMINE:

> WHAT TECHNICAL ISSUES REQUIRED GUIDANCE IN THE FORM OF REGULATIONS, REVENUE RULINGS AND PROCEDURES, NOTICES AND ANNOUNCEMENTS,

- WHAT TAXPAYER EDUCATION EFFORTS WERE NEEDED TO ENSURE THAT THE PUBLIC WAS AWARE OF THESE NEW RULES,
- WHAT CHANGES TO IRS FORMS AND PUBLICATIONS HAD TO BE MADE, AND
- WHAT INTERNAL ACTIONS WERE NECESSARY TO TRAIN OUR OWN EMPLOYEES, REVISE OUR PROCEDURAL INSTRUCTIONS, AND MODIFY AND TEST OUR COMPUTER PROGRAMS.

THE END RESULT OF THIS CONCENTRATED EFFORT WAS THE IRS' IMPLEMENTATION PLAN FOR TAX REFORM, WHICH IS OUR AGENCY'S BASIC PLANNING DOCUMENT FOR ADMINISTERING THE NEW LAW. OVER FOUR HUNDRED PAGES LONG WITH APPROXIMATELY 2000 SEPARATE ACTION ITEMS, IT IS AN EXHAUSTIVE AND DETAILED ACCOUNT OF THE MAJOR STEPS THAT WE ARE TAKING TO IMPLEMENT TAX REFORM. FOR EACH TAX REFORM PROVISION, THE IMPLEMENTATION PLAN IDENTIFIES EACH ACTION WE UNDERTAKE AND WHEN IT WILL BE COMPLETED.

WHILE THE TAX REFORM IMPLEMENTATION PLAN PROVIDED A ROAD MAP OF WHAT NEEDED TO BE DONE, THE SWEEPING CHANGES RESULTING FROM TAX REFORM REQUIRED US TO EXPAND SUBSTANTIALLY OUR TRADITIONAL APPROACHES TO IMPLEMENTING NEW TAX LAW. IN THE PAST WE HAD CONCENTRATED PRIMARILY ON INTERNAL ACTIONS OR TECHNICAL GUIDANCE NEEDED TO IMPLEMENT A NEW LAW. THE TAX REFORM ACT MADE SUCH FUNDAMENTAL CHANGES IN SO MANY AREAS THAT WE ALSO KNEW THAT WE NEEDED TO BE INNOVATIVE AND TO START EARLY TO EDUCATE TAXPAYERS ON THE CHANGES.

2. TRAINING

STRESSING QUALITY AND INNOVATION IN OUR PLANNING EFFORTS WAS JUST THE BEGINNING. WE ALSO HAD TO ENSURE THAT OUR EMPLOYEES WERE TRAINED ON THE NEW TAX LAW AND HAD THE NECESSARY INFORMATION TO SUCCESSFULLY ADMINISTER THESE NEW PROVISIONS.

LAST SUMMER WE CONDUCTED TAX REFORM IMPLEMENTATION SEMINARS ACROSS THE COUNTRY FOR ALL OUR EXECUTIVES. WE REVIEWED IMPORTANT

NEW PROVISIONS AFFECTING PASSIVE LOSSES, INDIVIDUAL RETIREMENT ARRANGEMENTS, MORTGAGE INTEREST DEDUCTIONS, AND ITEMIZED DEDUCTIONS. WE EXPLORED THE IMPACT OF THE NEW CHANGES ON VARIOUS TAXPAYER GROUPS INCLUDING TWO-EARNER MARRIED COUPLES, THE ELDERLY, AND CHILDREN AND OTHER DEPENDENTS. WE CHALLENGED OUR EXECUTIVES TO FIND INNOVATIVE WAYS TO IMPLEMENT TAX REFORM AT THE LOCAL LEVEL. WE BRAINSTORMED ABOUT THE BEST WAYS TO GET IMPORTANT TAX REFORM MESSAGES ACROSS TO THE AMERICAN TAXPAYERS AND SHARED APPROACHES THAT HAD PROVEN TO BE SUCCESSFUL.

TRAINING ON TAX REFORM HAS BEEN A TOP PRIORITY FOR ALL OUR EMPLOYEES. CUMULATIVELY WE LOGGED OVER 2.5 MILLION HOURS OF EMPLOYEE TRAINING ON TAX REFORM. TO BE READY FOR THE ANTICIPATED INCREASE IN TAXPAYER QUESTIONS THIS YEAR, WE HAVE BEEN WORKING PARTICULARLY WITH TAXPAYER SERVICE ASSISTORS AND MANAGERS TO INCREASE OUR TAXPAYER EDUCATION AND ASSISTANCE CAPABILITIES.

3. COMMUNICATING GOALS

IMPLEMENTING TAX REFORM REQUIRED THE COOPERATION AND ACTIVE PARTICIPATION OF MANY PEOPLE. IN PARTICULAR, THE 100,000 EMPLOYEES OF THE IRS HAD TO BE COMMITTED TO CARRYING OUT THIS HISTORIC NEW LAW. WE ALSO LOOKED TO OTHER GROUPS, SUCH AS THE MEDIA AND ORGANIZATIONS OF TAX PRACTITIONERS AND TAXPAYERS, TO PARTICIPATE ACTIVELY WITH US IN EDUCATING TAXPAYERS.

EARLY IN THE IMPLEMENTATION PROCESS WE IDENTIFIED FOUR MAJOR GOALS FOR IMPLEMENTING TAX REFORM (SEE APPENDIX A) AND DEVELOPED AN OVERALL COMMUNICATIONS STRATEGY TO EMPHASIZE THE DUAL THEMES OF READINESS AND CUSTOMER SERVICE. INTERNALLY, WE WORKED TO INSTILL CONFIDENCE IN OUR EMPLOYEES ACROSS THE COUNTRY AND TO INTEGRATE OUR EMPHASIS ON QUALITY INTO THE IMPLEMENTATION ACTIVITIES. EXTERNALLY, WE PLANNED NEW WAYS TO FOCUS TAXPAYERS' ATTENTION AND COMMUNICATE THE INFORMATION THEY NEEDED TO KNOW.

THE "EXTRA MILE" PROGRAM IN OUR DALLAS DISTRICT IS AN EXAMPLE OF HOW IRS EMPLOYEES ARE DOING THAT LITTLE BIT EXTRA TO HELP TAXPAYERS. ON OR OFF THE JOB, REGARDLESS OF THE QUESTION, THEY JOT DOWN THE TAXPAYER'S NAME AND NUMBER AND HAVE AN IRS

REPRESENTATIVE, EXPERIENCED IN THAT AREA, GET BACK IN TOUCH WITH THE TAXPAYER TO PROVIDE THE INFORMATION OR ASSISTANCE THEY REQUIRE.

BEYOND THIS FILING SEASON THE RENEWED EMPHASIS ON QUALITY AND CUSTOMER SERVICE AND THE CHALLENGE OF IMPLEMENTING TAX REFORM HAVE ENERGIZED THE AGENCY. CERTAINLY CONGRESS' SUPPORT FOR MUCH-NEEDED FUNDS TO PROPERLY STAFF OUR TAXPAYER SERVICE AND SERVICE CENTER OPERATIONS HELPED. OUR FOLKS ARE EXCITED ABOUT THE OPPORTUNITY TO IMPROVE OUR SERVICE TO TAXPAYERS AT THIS IMPORTANT TIME FOR OUR TAX SYSTEM.

4. EARLY GUIDANCE

THE TAX RETURN IS THE BASIC LINK BETWEEN TAXPAYERS AND THE IRS. IT IS NOT ONLY THE VEHICLE THROUGH WHICH TAXPAYERS DETERMINE THEIR TAXES, IT ALSO SERVES TO CRYSTALIZE THEIR FEELINGS ABOUT OUR TAX SYSTEM. UNFORTUNATELY, OUR FIRST ATTEMPT AT COMMUNICATING THE TAX REFORM CHANGES TO THE AMERICAN PUBLIC DID NOT FARE VERY WELL. WE WELL REMEMBERED OUR EXPERIENCE LAST YEAR WITH THE FORM W-4 WITHHOLDING FORM WHICH CAUSED SO MANY PROBLEMS BECAUSE IT WAS SO HARD TO UNDERSTAND. SO, WE WENT BACK TO THE DRAWING BOARD AND, AFTER THOROUGH TESTING WITH FOCUS GROUPS, WE DESIGNED THE SIMPLER AND MORE EASILY UNDERSTOOD FORM W-4A.

I BRING THIS UP NOW ONLY TO POINT OUT WHAT WE LEARNED FROM THAT EXPERIENCE. IT TAUGHT US A VALUABLE LESSON ABOUT GETTING TAXPAYERS' COMMENTS IN ORDER TO AVOID PUTTING OUT OTHER PRODUCTS THAT THE PUBLIC CAN'T OR WON'T DEAL WITH. CONSEQUENTLY, WE STARTED USING A TWO-PRONGED APPROACH TO OBTAIN PUBLIC AND PRACTITIONER ACCEPTANCE OF THE NEW FORMS.

THROUGHOUT THE SUMMER, WE RELEASED DRAFT FORMS IN ORDER TO GET PUBLIC COMMENT AND TO PERMIT TAXPAYERS AND PRACTITIONERS TO GET BASIC INFORMATION ON THE NEW PROVISIONS. WE ALSO TESTED THE NEW FORMS USING FOCUS GROUPS OF TAXPAYERS OR PRACTITIONERS. TO DO THIS, IRS CONTRACTED WITH BOOZ-ALLEN HAMILTON INC. BETWEEN

JULY AND SEPTEMBER, BOOZ-ALLEN CONDUCTED 64 FOCUS GROUPS WITH OVER 550 TAXPAYERS TO TEST FORMS 1040, 1040A, 1040EZ, SCHEDULE A (ITEMIZED DEDUCTIONS) FORM 8606 (IRA CONTRIBUTIONS), AND FORM 8598 (HOME MORTGAGE INTEREST). THE FOCUS GROUP SESSIONS WERE HELD IN 23 CITIES ACROSS THE COUNTRY. THESE TESTS ALERTED US TO AREAS OF CONFUSION ON THE FORMS AND INSTRUCTIONS THAT WE COULD CORRECT BEFORE ISSUING THE FINAL VERSIONS.

BECAUSE TAX REFORM REQUIRED CHANGES TO 162 EXISTING IRS FORMS AND THE DEVELOPMENT OF 48 NEW FORMS, WE FOCUS-TESTED THOSE FORMS THAT ARE MOST WIDELY USED OR SIGNIFICANTLY CHANGED. WE KNOW FROM EXPERIENCE THAT TAXPAYERS MAKE MORE ERRORS WHENEVER FORMS ARE CHANGED. THEREFORE, WE MADE EVERY EFFORT TO KEEP THIS YEAR'S FORMS SIMILAR IN APPEARANCE AND FORMAT TO THOSE USED IN PRIOR YEARS. MANY TAXPAYERS WILL FIND THAT THEIR RETURNS ARE MUCH LIKE LAST YEAR'S AND NO NEW FORMS OR SCHEDULES WILL BE NEEDED. OTHERS MAY HAVE ONE OR MORE NEW SCHEDULES TO COMPLETE REFLECTING CHANGES IN TAX COMPUTATION UNDER THE NEW RULES. BECAUSE CHANGES ARE USUALLY MORE DIFFICULT TO DEAL WITH THE FIRST YEAR, HOWEVER, WE HAVE LAUNCHED AN EXTENSIVE CAMPAIGN TO ENCOURAGE TAXPAYERS TO START EARLY TO FAMILIARIZE THEMSELVES WITH THE 1987 RETURNS AND FILE THEIR RETURNS AS SOON AS POSSIBLE.

TAXPAYERS AND PRACTITIONERS ALSO DEPEND ON THE TIMELY ISSUANCE OF LEGAL GUIDANCE IN ORDER TO FILE RETURNS. THROUGH JANUARY 31, 1988, THE IRS HAS ISSUED 253 SEPARATE ITEMS OF GUIDANCE UNDER THE TAX REFORM ACT. SPECIFICALLY, WE HAVE PUBLISHED 42 REGULATIONS, 76 NOTICES, 65 ANNOUNCEMENTS, 32 REVENUE RULING, 20 REVENUE PROCEDURES, AND VARIOUS TREATIES, DELEGATION ORDERS AND OTHER ITEMS.

5. TAXPAYER OUTREACH

TO BE CREATIVE IN CONVEYING THE TAX REFORM MESSAGE TO THE AMERICAN PUBLIC WE INITIATED A FALL OUTREACH CAMPAIGN. THIS CAMPAIGN WAS KICKED OFF LAST OCTOBER WHEN WE SENT A PAMPHLET TO OVER 90 MILLION TAXPAYERS, ALERTING THEM TO THE NEW LAW AND

URGING THEM TO BEGIN THINKING ABOUT TAXES RATHER THAN PUTTING IT OFF UNTIL THEY BEGIN TO PREPARE THEIR RETURNS. THE PAMPHLET INCLUDED AN ORDER BLANK FOR THE NEW PUBLICATION 920 WHICH IS AN EXCELLENT PLAIN-LANGUAGE EXPLANATION OF THE TAX REFORM ACT CHANGES FOR INDIVIDUALS. SO FAR, WE HAVE FILLED NEARLY 16 MILLION ORDERS FOR THIS PUBLICATION, MAKING IT THE MOST POPULAR IRS PUBLICATION THAT WE HAVE EVER HAD.

OVERALL, 13 NEW IRS PUBLICATIONS WERE DEVELOPED TO EXPLAIN THE NEW LAW AND DISTRIBUTED IN A WAY THAT WOULD REACH THE WIDEST AUDIENCE POSSIBLE. PUBLICATION 920 AND ITS COMPANION PUBLICATION 921 FOR BUSINESSES WERE DISTRIBUTED TO 22,000 LIBRARIES ACROSS THE COUNTRY. OUR NEW "SLIM JIM" PUBLICATION 1339 WHICH HIGHLIGHTS THE MAJOR NEW PROVISIONS WAS MAILED TO 300,000 PRACTITIONERS AND PLACED IN MANY OTHER LOCATIONS SUCH AS MAJOR DEPARTMENT STORES IN THE CHICAGO AREA. SOME OF OUR NEW PUBLICATIONS WERE TARGETED AND DISTRIBUTED TO SPECIAL GROUPS. THE REAL ESTATE INDUSTRY CIRCULATED OUR NEW PUBLICATION 924 ON REAL ESTATE REPORTING REQUIREMENTS TO ITS MEMBERS. THE BANKING AND FINANCE COMMUNITIES HELPED TO DISTRIBUTE OUR NEW IRA PUBLICATION 923 TO THOSE INSTITUTIONS PROMOTING IRAS AND OUR NEW MORTGAGE INTEREST PUBLICATION 932 TO INSTITUTIONS HAVING HOME MORTGAGE CUSTOMERS.

AS ANOTHER PART OF THE OUTREACH CAMPAIGN, WE MOBILIZED IRS EMPLOYEES, PRACTITIONERS, AND VOLUNTEERS ACROSS THE COUNTRY THROUGH A SERIES OF ACTIVITIES INCLUDING ELECTRONIC MEDIA EVENTS, SEMINARS AND INSTITUTES, SPEECHES AND SPECIAL ASSISTANCE DAYS. FOR THE PAST SIXTEEN MONTHS WE WORKED CLOSELY WITH THE ELECTRONIC AND PRINT MEDIA ACROSS THE COUNTRY TO PUBLICIZE THE CHANGES UNDER TAX REFORM. FROM OFFICES ACROSS THE COUNTRY WE HAVE BEEN TALKING TAX REFORM - TO PRACTITIONERS, CIVIC GROUPS, BUSINESSES, EMPLOYERS, AND TRADE ASSOCIATIONS - DOING EVERYTHING WE COULD THINK OF TO ALERT TAXPAYERS TO THESE NEW RULES WELL IN ADVANCE OF THE FILING SEASON.

WE HAVE BEEN HELPED IN OUR EFFORTS TO EDUCATE TAXPAYERS BY VOLUNTEER SERVICES SUCH AS VOLUNTARY INCOME TAX ASSISTANCE AND TAX COUNSELING FOR THE ELDERLY AND OUR COMMUNITY OUTREACH TAX ASSISTANCE PROGRAMS WHICH IS A YEAR ROUND SERVICE TO HELP VARIOUS GROUPS SUCH AS TEACHERS, BUSINESSMEN AND FARMERS, UNDERSTAND THE NEW TAX LAW. MORE THAN EVER BEFORE, TAX PRACTITIONERS HAVE ALSO PLAYED A KEY ROLE IN OUR OVERALL TAXPAYER EDUCATION EFFORTS.

FOR THE FIRST TIME IN OUR AGENCY'S HISTORY, WE HAVE CONDUCTED NATIONAL TELECONFERENCES TO COMMUNICATE IMPORTANT TAX INFORMATION. IN OCTOBER, A TELECONFERENCE FOR PRACTITIONERS WAS HELD. OTHER TELECONFERENCES HAVE BEEN HELD SINCE THEN INCLUDING TWO THIS MONTH WITH THE AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP) AND THE JOINT COUNCIL ON ECONOMIC EDUCATION TO EDUCATE AARP MEMBERS AND HIGH SCHOOL STUDENTS ABOUT THE NEW TAX LAW. WE ALSO HAVE BEGUN A SERIES OF BRIEFINGS WITH MEMBERS OF THE MEDIA TO PROVIDE THEM WITH UP TO DATE INFORMATION ON THE STATUS OF THE 1988 FILING SEASON.

THIS JANUARY THE IRS JOINED FORCES WITH THE ADVERTISING COUNCIL TO LAUNCH A NATIONWIDE CAMPAIGN TO INFORM OVER 100 MILLION TAXPAYING AMERICANS ABOUT HOW THE RECENT CHANGES WOULD AFFECT THEM. WORKING WITH THE NEW YORK AD AGENCY MCCANN-ERICKSON, THE IRS IS CONDUCTING A MAJOR MULTI-MEDIA CAMPAIGN TO "MAKE YOUR TAXES LESS TAXING" BY FILING EARLY AND ACCURATELY. MANY MEDIA MATERIALS INCLUDING TV AND RADIO SPOTS, BILLBOARDS, BUSCARDS AND DROP-IN ADS, ARE BEING CREATED TO REFLECT THE NEW THEME. THE ADVERTISING CAMPAIGN BUDGET THIS YEAR IS JUST OVER $1 MILLION AND IS EXPECTED TO GENERATE MORE THAN $25 MILLION IN DONATED ADVERTISING TIME AND SPACE IN THE NATION'S MEDIA.

B. FILING SEASON READINESS

MR. CHAIRMAN, IT WAS JUST THREE YEARS AGO THAT THE IRS AND AMERICAN TAXPAYERS UNDERWENT WHAT WE ALL CAN AGREE WAS THE WORST FILING SEASON EVER. MILLIONS OF REFUNDS WERE HELD UP FOR WEEKS AND MONTHS. THE PROBLEMS WITH PROCESSING RETURNS RESULTED IN TREMENDOUS BACKLOGS OF OTHER SERVICE CENTER WORK. OUR TAXPAYER

SERVICE PERSONNEL, ALREADY UNDER STRAIN DUE TO REDUCTIONS IN STAFFING AND FUNDING, WERE OVERWHELMED.

WE HAVE COME A LONG WAY SINCE THEN. BOTH THE 1986 AND 1987 FILING SEASONS HAVE BEEN UNQUALIFIED SUCCESSES. GOING INTO THIS YEAR WITH SO MANY TAX CHANGES, IT GIVES ME A CERTAIN AMOUNT OF COMFORT TO HAVE THESE BACK-TO-BACK SUCCESSFUL FILING SEASONS UNDER OUR BELT.

TO MEET THE CHALLENGE OF IMPLEMENTING TAX REFORM THIS FILING SEASON, HOWEVER, WE HAVE INCREASED OUR STAFFING OVER PRIOR YEAR LEVELS. OUR PEOPLE ARE BETTER TRAINED. OUR EQUIPMENT IS BETTER. WE HAVE MORE CHECKS IN PLACE TO MONITOR PROBLEM AREAS. WE ARE READY EARLIER THAN WE HAVE EVER BEEN. AND I HAVE OBSERVED FIRST HAND THE DEDICATION OF OUR EMPLOYEES TO MAKING THIS FILING SEASON SUCCESSFUL.

BEFORE ANYONE ACCUSES ME OF WEARING ROSE COLORED GLASSES, LET ME COVER A NUMBER OF AREAS THAT WE BELIEVE ARE KEY INDICATORS OF OUR STATE OF READINESS.

1. TAXPAYER SERVICE

WE HAVE INCREASED THE NUMBER OF TELEPHONE LINES THAT TAXPAYERS CAN CALL IN ON BY ALMOST 30% OVER LAST YEAR TO 4,359 LINES. THE NUMBER OF TOLL FREE TELEPHONE ASSISTORS HAS INCREASED FROM 3,500 IN 1987 TO 4,500 IN 1988. TOTAL STAFFING HAS BEEN INCREASED BY APPROXIMATELY 1,300 STAFF-YEARS TO A TOTAL OF 7,245 STAFF-YEARS.

THIS INCREASE IN STAFFING REFLECTS TWO OBJECTIVES FOR OUR TOLL-FREE SERVICE THIS FILING SEASON. FIRST, WE EXPECT THE NUMBER OF PEOPLE REQUIRING ASSISTANCE TO INCREASE BECAUSE OF QUESTIONS RELATING TO TAX REFORM. THIS FILING PERIOD, WE ESTIMATE THAT 26 MILLION PEOPLE WILL CALL IN ON OUR TOLL FREE LINES. IN COMPARISON, 23 MILLION CALLED IN 1987.

SECOND, WE HAVE TAKEN A NUMBER OF OTHER STEPS TO MAXIMIZE THE OPPORTUNITIES FOR EVERYONE NEEDING TAX ASSISTANCE TO GET IT. FIELD OFFICES HAVE EXTENDED THE HOURS OF OPERATION AT THEIR TOLL-FREE TELEPHONE SITES. ALL REGIONS WILL PROVIDE TOLL-FREE

TAXPAYER SERVICE ON SATURDAYS AND SOME WILL ALSO BE OPEN ON SUNDAYS. THIS HELPS US SPREAD OUT THE INCOMING TELEPHONE TRAFFIC AND WE HAVE FOUND THAT NOW MANY PEOPLE USE WEEKENDS TO WORK ON THEIR TAX RETURNS.

TO PREPARE FOR THE ANTICIPATED INCREASE IN CALLS, CIRCUITRY TO HANDLE PEAK DEMAND WAS INSTALLED AT ALL CALL SITES BY THE END OF DECEMBER. SHOULD IT BE NECESSARY, EACH OF THE SEVEN REGIONS WILL BE ABLE TO HANDLE AN INCREASE OF APPROXIMATELY 20 PERCENT ABOVE EXPECTED TELEPHONE DEMAND BY INCREASING CIRCUITRY ABOVE CURRENT LEVELS AND/OR BY IMPLEMENTING ONE OR MORE OF SEVERAL OPTIONS TO INCREASE STAFF-HOUR AVAILABILITY ON THE TELEPHONE. ALTOGETHER THESE ACTIONS ENSURE THAT OUR OFFICES ARE EQUIPPED TO HANDLE A LARGER VOLUME OF CALLS THIS FILING SEASON.

BESIDES THE ADDITIONAL TRAINING OFFERED TO TAXPAYER SERVICE EMPLOYEES I MENTIONED EARLIER, AND THE EXTENSIVE ON-THE-JOB TRAINING PROGRAM FOR ITS NEWEST EMPLOYEES, WE ARE TAKING STEPS TO ADDRESS LAST YEAR'S PROBLEM OF LESS THAN SATISFACTORY TECHNICAL ACCURACY RATES. WE ARE ASKING OUR MANAGERS TO TAKE A MORE ACTIVE ROLE IN MONITORING THE WORK OF EMPLOYEES, AND TO CLOSELY TRACK THE ACCURACY OF OUR TECHNICAL ANSWERS TO TAXPAYERS' QUESTIONS.

WHAT I HOPE THIS CONVEYS TO YOU, MR. CHAIRMAN, IS THAT A GREAT DEAL OF PLANNING HAS GONE INTO IMPROVING OUR TAXPAYER SERVICE AREA. WE HAVE EMPLOYED CREATIVITY AND FLEXIBILITY IN THE WAY THAT WE DO THINGS THIS YEAR. THIS ALONG WITH THE INCREASE IN RESOURCES HAS MADE TAXPAYER SERVICE ONE OF THE MOST EXCITING AND CHALLENGING AREAS TO WORK IN AT IRS.

2. DISTRIBUTION OF FORMS AND PUBLICATIONS

FILLING ORDERS FOR FORMS AND PUBLICATIONS IS A CRITICAL ELEMENT OF ANY FILING SEASON AND THIS IS ESPECIALLY TRUE IN 1988. TAXPAYER AND PRACTITIONER DEMAND FOR THE NEW TAX REFORM MATERIAL IS ALREADY VERY HIGH.

TWO YEARS AGO WE BEGAN INSTALLING A TOLL-FREE TELEPHONE SYSTEM THAT WAS DEDICATED TO ORDERING TAX FORMS AND PUBLICATIONS. THAT SYSTEM IS NOW FULLY OPERATIONAL. THIS YEAR

WE HAVE INCREASED THE NUMBER OF TOLL-FREE LINES FOR ORDERING FORMS TO 539 LINES COMPARED TO 370 LINES LAST YEAR. THUS FAR, OUR LEVEL OF SERVICE IN THIS AREA IS WELL ABOVE OUR GOALS.

MOST PUBLIC ORDERS FOR FORMS AND PUBLICATIONS ARE BEING PROCESSED AND MAILED WITHIN 48 HOURS AFTER THEY ARE RECEIVED AT A CENTER. THIS IS MUCH FASTER THAN LAST YEAR WHEN THE TURN-AROUND-TIME WAS APPROXIMATELY FOUR DAYS.

3. SERVICE CENTERS

THIS YEAR, WE EXPECT THAT OUR 10 CENTERS WILL RECEIVE OVER 107 MILLION INDIVIDUAL INCOME TAX RETURNS, MORE THAN EVER BEFORE. TO BE READY FOR THIS FILING SEASON, WE EXPECT TO HAVE 38,000 EMPLOYEES PROCESSING RETURNS DURING THE FILING SEASON PEAK COMPARED TO 35,000 EMPLOYEES LAST YEAR. SO FAR WE HAVE NOT EXPERIENCED ANY SERIOUS RECRUITMENT PROBLEMS AT THE SERVICE CENTERS. THE ONLY SERVICE CENTER WHERE THERE WAS ANY CONCERN WAS THE ANDOVER CENTER IN EARLY JANUARY. HOWEVER, AS THE RESULT OF AN INNOVATIVE JOB FAIR CONDUCTED OVER ONE RECENT WEEKEND, WE RECEIVED OVER 1,000 APPLICATIONS FOR VARIOUS RETURNS PROCESSING JOBS, FAR ABOVE WHAT WE EXPECTED.

PRIOR TO THE FILING SEASON EACH SERVICE CENTER WAS VISITED AND EXTENSIVELY BRIEFED BY TEAMS COMPOSED OF MANAGEMENT OFFICIALS AND ANALYSTS. TAX REFORM ISSUES AND TECHNIQUES AND RESOURCE NEEDS FOR THE PROCESSING OF RETURNS WERE ADDRESSED DURING THESE VISITS. SERVICE CENTER INSTRUCTION MANUALS WERE REVISED AND MADE AVAILABLE WELL IN ADVANCE OF THE FILING SEASON. SPECIAL EMPHASIS WAS PLACED ON TESTING AND PERFECTING THESE PROCEDURES AS EMPLOYEES WERE TRAINED TO USE THEM. THIS SCRUTINY OF PROCESSING PROCEDURES IS VITAL TO THE ACCURATE PROCESSING OF TAX RETURNS.

OUR TAX PROCESSING COMPUTER PROGRAMS WERE ALSO REVISED, REVIEWED AND TESTED FOR THIS FILING SEASON.

WE LIKEWISE ARE SATISFIED WITH OUR COMPUTER HARDWARE. ALTHOUGH WE ARE IN THE PROCESS OF INSTALLING NEW EQUIPMENT IN TWO SERVICE CENTERS, THIS WILL NOT AFFECT TAX PROCESSING FOR THIS

FILING SEASON. PRIOR TO THE FILING SEASON, WE REPLACED THE VAST MAJORITY OF ANTIQUATED TERMINALS USED BY EMPLOYEES IN UPDATING AND RETRIEVING INFORMATION ON TAXPAYER ACCOUNTS. THIS WILL RESULT IN BETTER TAXPAYER SERVICE ON ACCOUNT RELATED INQUIRIES. OVERALL, THE IRS IS IN AN EVEN BETTER PROCESSING POSITION THAN LAST YEAR, WHICH WAS AN EXCELLENT YEAR.

FINALLY, LET ME MENTION THE STATUS OF OUR SERVICE CENTER INVENTORIES GOING INTO THE FILING SEASON. I AM SPEAKING OF OUR INVENTORIES OF ADJUSTMENTS OR CORRESPONDENCE FROM TAXPAYERS. AFTER THE 1985 FILING SEASON, THESE INVENTORIES MUSHROOMED AND BECAME A SERIOUS PROBLEM THAT UNDERCUT TAXPAYER AND PRACTITIONER CONFIDENCE IN OUR ABILITY TO HANDLE PROBLEMS THAT AROSE FROM THE PROCESSING OF TAX RETURNS.

I AM PLEASED TO REPORT THAT THE GREAT PROGRESS WE MADE IN CUTTING INTO THESE WORKLOAD INVENTORIES IN 1986 CONTINUED THROUGHOUT 1987. IN FACT, GOING INTO THE 1988 FILING SEASON, ALL SERVICE CENTERS REPORTED THAT THEIR INVENTORIES WERE MANAGEABLE. FOR EXAMPLE, OUR ADJUSTMENTS INVENTORY DECLINED FROM 1.1 MILLION CASES IN JANUARY 1986 TO 359,000 CASES IN JANUARY 1988.

I THINK THAT AFTER COVERING THESE THREE AREAS, MR. CHAIRMAN--TAXPAYER SERVICE, FORMS DISTRIBUTION, AND SERVICE CENTER READINESS--YOU CAN SEE THE REASONS FOR MY CONFIDENCE AS WE GO INTO THE FILING SEASON. WHAT WE HAVE DONE IN TERMS OF PLANNING AND PREPARATION GIVES ME GREAT PRIDE IN THIS ORGANIZATION. I HAVE TOUCHED ON THE THEMES OF QUALITY AND CUSTOMER SERVICE EARLIER IN THIS TESTIMONY. THOSE TWO THEMES CAN BE SEEN THROUGHOUT ALL WE HAVE DONE IN GETTING READY FOR THIS YEAR. FROM OUR EXPANDED HOURS IN TAXPAYER SERVICE, TO OUR MODERNIZATION OF COMPUTER EQUIPMENT, TO OUR READINESS CHECKS IN THE SERVICE CENTERS--THERE HAS BEEN AN ONGOING EFFORT TO PUT QUALITY INTO THE PROCESS. THAT COMMITMENT RUNS TOP TO BOTTOM IN OUR ORGANIZATION. YOU CAN SEE IT IN OUR PREPARATION AND I THINK YOU WILL SEE IT IN THE RESULTS...NOT ONLY THIS YEAR BUT IN THE YEARS TO COME.

WILL THERE BE PROBLEMS THIS YEAR? SURE THERE WILL. WILL SOME PEOPLE BE UNHAPPY? YOU CAN BET ON IT. BUT HAVE WE DONE OUR JOB? IF THAT MEANS DID WE PUT OUT OUR MAXIMUM EFFORT WITH THE MOST RESOURCES WE COULD GET IN THE TIME THAT WE HAD? THEN YES, WE DID.

4. CONTINGENCY PLANS

TO ENSURE THAT IRS IS READY TO REACT TO ANY PROBLEMS THAT ARISE DURING THE 1988 FILING SEASON, WE HAVE EMPHASIZED THE IMPORTANCE OF CONTINGENCY PLANNING THROUGHOUT OUR ORGANIZATION.

OUR TAXPAYER SERVICE CONTINGENCY PLANS ENSURE THAT WE WILL HAVE TRAINED IRS EMPLOYEES AVAILABLE TO ANSWER TAXPAYER INQUIRIES AND THAT WE HAVE BACKUP SYSTEMS AND SITES READY IN THE EVENT THAT OPERATIONAL PROBLEMS ARISE. WE HAVE EMPHASIZED EARLY HIRING AND RETENTION OF OUR SEASONAL FRONT-LINE ASSISTORS AND WE HAVE EXPERIENCED TECHNICAL PERSONNEL AVAILABLE TO PROVIDE BACKUP SUPPORT.

ADDITIONAL TELEPHONE LINES HAVE BEEN ADDED AT MOST TOLL-FREE TELEPHONE SITES TO HANDLE THE ANTICIPATED HIGH VOLUME OF TAXPAYER INQUIRIES AND BACKUP SYSTEMS ARE BEING INSTALLED AT SEVERAL SITES TO RELIEVE POTENTIAL STRESS SITUATIONS. IN ADDITION, IF OPERATIONAL PROBLEMS ARISE AT ANY OF OUR ANSWERING SITES, THE INCOMING CALLS CAN BE AUTOMATICALLY TRANSFERRED TO ANY ONE OF OUR THREE EMERGENCY SITES LOCATED AT INDIANAPOLIS, JACKSONVILLE AND HOUSTON. IF FOR ANY REASON THE EMERGENCY SITES ARE NOT ABLE TO HANDLE THE TRANSFERRED CALL VOLUMES, A NUMBER OF OTHER CALL SITES COULD ASSUME ADDITIONAL TELEPHONE WORKLOAD AS NECESSARY.

FOR OUR TAX FORMS DISTRIBUTION PROGRAM, A BACKUP DISTRIBUTION FACILITY AT FLORENCE, KENTUCKY, HAS BEEN DESIGNATED AND WE WILL ALSO HAVE THE ABILITY TO TRANSFER INCOMING TAXPAYER CALLS BETWEEN SITES.

OUR SERVICE CENTER CONTINGENCY PLANS EMPHASIZE THE EARLY MONITORING OF TAX RETURN RECEIPT PATTERNS TO IDENTIFY ANY UNEXPECTED TRENDS AND THE ABILITY TO TRANSFER WORKLOAD BETWEEN

CENTERS. IN ADDITION, THE NATIONAL COMPUTER CENTER CAN PROVIDE COMPUTER SUPPORT IF A SERVICE CENTER'S SPERRY 1100 SYSTEM WORKLOAD EXCEEDS AVAILABLE RESOURCES.

III. ARE WE READY?

A. RESULTS OF OUR PREPARATION

THE IRS HAS WORKED HARD ON IMPLEMENTING THE TAX REFORM ACT OF 1986 AND PREPARING FOR THE 1988 FILING SEASON. WE BELIEVE THAT WE'VE DONE A GOOD JOB AND HAVE TAKEN SOME INNOVATIVE ACTIONS TO IMPLEMENT THIS NEW LAW. WE HAVE ALSO TRIED TO ANALYZE OUR PLANS AND PROGRESS FROM EVERY POSSIBLE PERSPECTIVE. BUT THROUGHOUT THE YEAR WE WANTED TO BE ASSURED THAT WE WERE ON TRACK SO I ASKED FOR THE FOLLOWING REVIEWS TO BE CONDUCTED TO DETERMINE HOW WELL WE WERE DOING.

1. EXECUTIVE STEERING COMMITTEE

SHORTLY AFTER TAX REFORM WAS ENACTED, WE ESTABLISHED A CONTROL GROUP OF SELECTED NATIONAL OFFICE OFFICIALS. THEIR ROLE WAS TO ADVISE ME ON THE AGENCY'S PROGRESS IN PLANNING FOR IMPLEMENTATION AND TO BRING TO MY ATTENTION THOSE ISSUES REQUIRING POLICY DECISIONS. THE CONTROL GROUP ALSO ORGANIZED A SERIES OF PUBLIC MEETINGS TO PROVIDE IMMEDIATE INFORMATION ON THE TAX REFORM CHANGES THAT WERE OF INTEREST TO PARTICULAR GROUPS SUCH AS EMPLOYERS.

IN FEBRUARY 1987, WE EXPANDED OUR INTERNAL OVERSIGHT ACTIVITIES BY ESTABLISHING AN EXECUTIVE STEERING COMMITTEE FOR TAX REFORM, COMPOSED OF BOTH NATIONAL OFFICE AND FIELD OFFICIALS. WE WERE PARTICULARLY INTERESTED IN GETTING THE PERSPECTIVE OF EXPERIENCED, MULTIFUNCTIONAL FIELD EXECUTIVES ON SOME OF THE EFFORTS THAT WERE STILL IN THE PLANNING STAGES. IT WAS THE COMMITTEE'S JOB TO ENSURE THAT OUR OVERALL PLANNING PROCESS WAS ADEQUATE AND TO ELEVATE ISSUES AND CONCERNS ABOUT IMPLEMENTATION TO THE APPROPRIATE OFFICIALS. IN ADDITION, THE COMMITTEE WAS CHARGED WITH THE CRITICAL TASK OF OVERSEEING THE

SERVICE'S STRATEGY FOR COMMUNICATING THE TAX REFORM MESSAGE BOTH TO THE PUBLIC AND TO OUR OWN EMPLOYEES. THROUGH THE COMMITTEE'S EFFORTS, THE IRS GOALS STATEMENT AND COMMUNICATIONS STRATEGY WERE DEVELOPED, TRAINING FOR OUR EXECUTIVES WAS CONDUCTED, AND PLANS FOR OUR FALL OUTREACH CAMPAIGN WERE INITIATED.

2. 1988 FILING SEASON READINESS GROUP

FUNCTIONING AS A SUBGROUP UNDER THE EXECUTIVE STEERING COMMITTEE WAS A SECOND EXECUTIVE TEAM CHARGED WITH THE RESPONSIBILITY OF ENSURING THAT THE IRS WAS OPERATIONALLY READY FOR THE 1988 FILING SEASON. SINCE 1985, READINESS CHECKS HAVE BECOME A STANDARD PART OF OUR OVERALL PLANNING PROCESS. BECAUSE OF THE SWEEPING CHANGES CAUSED BY TAX REFORM, OUR FILING SEASON READINESS CHECKS WERE INITIATED EARLIER AND EXPANDED TO COVER NOT ONLY SERVICE CENTERS, BUT TAXPAYER SERVICE OPERATIONS AND FORMS DISTRIBUTION SITES AS WELL.

CONDUCTING THEIR REVIEWS DURING THE SUMMER AND FALL OF 1987, THE READINESS GROUP FOUND ALL THREE FUNCTIONAL AREAS, SERVICE CENTERS, TAXPAYER SERVICE, FORMS AND DISTRIBUTION SITES, INTENSELY INVOLVED IN PLANNING FOR THE IMPLEMENTATION OF THE TAX REFORM ACT AND PREPARING FOR THE 1988 FILING SEASON. DETAILED PLANS HAD BEEN DEVELOPED, GOALS HAD BEEN ESTABLISHED AND POTENTIAL PROBLEM AREAS HAD BEEN IDENTIFIED AND WERE BEING ADDRESSED. OVERALL, THEY CONCLUDED THAT THE PLANNING EFFORT WAS THOROUGH AND OF HIGH CALIBER. (SEE APPENDIX B.)

3. INTERNAL AUDIT

OUR INTERNAL AUDIT STAFF ALSO CONDUCTED A SERIES OF NATIONAL AND LOCAL AUDITS TO ENSURE THAT THE IRS WAS READY FOR THE 1988 FILING SEASON AND WILL CONTINUE MONITORING OUR ACTIVITIES THROUGHOUT THE FILING SEASON. THEY ARE DEVOTING APPROXIMATELY SIXTY-FIVE STAFF YEARS IN FISCAL YEAR 1988 TO CONDUCT REVIEWS OF TAXPAYER SERVICE ACTIVITIES, THE SOFTWARE DEVELOPMENT PROCESS, INDIVIDUAL AND BUSINESS INCOME TAX PROCESSING ACTIVITIES INCLUDING ELECTRONIC FILING CAPABILITIES, THE TAX MATERIAL DISTRIBUTION PROGRAM AND TAXPAYER COMPLIANCE PROGRAMS.

Internal Audit did not identify any problems that would prevent the Service from achieving its goals for implementing the Tax Reform Act of 1986. They did, however, identify several areas that needed further attention, including form instructions, taxpayer service staffing and service center processing procedures. Our functional executives and managers have reacted quickly to Internal Audit's recommendations and corrective actions are underway.

4. Booz-Allen Report

We specifically asked for a review by an outside firm because we wanted an independent review of our tax reform implementation process to attempt to validate our own internal controls. We contracted with Booz-Allen & Hamilton Inc. to conduct a management review for the IRS during July and early August 1987 to examine the development and initial plans for implementing tax reform. Their task was to identify any significant planning deficiencies that could jeopardize our ability to implement the new law or administer the overall tax system.

This summer, they conducted extensive interviews with National Office and field officials and reviewed our official planning documents. Overall, they were favorably impressed with the implementation planning effort, the execution of our plans to date, and the dedication and commitment of IRS managers and executives in providing quality customer service to the taxpaying public. In their words, "Clearly, the IRS is committed to a comprehensive translation of the law into its operations."

They also helped us focus on several critical areas that needed further attention. Their report contained eight recommendations for improving both the near- and long-term aspects of tax reform implementation planning. (See Appendix C.) As a result of our ongoing dialogue with Booz-Allen following their review, we had already developed preliminary

PLANS TO ADDRESS THOSE EIGHT AREAS AND, IN FACT, HAD IMPLEMENTED SEVERAL OF THEIR RECOMMENDATIONS BY THE TIME OF THEIR FINAL REPORT.

B. TAXPAYER IMPACT

HAVING SAID ALL THIS, OUR CONFIDENCE LEVEL HAS TO BE TEMPERED BY THE FACT THAT THERE IS ONE IMPORTANT FACTOR THAT IS ULTIMATELY OUTSIDE OUR CONTROL--THE FILING PATTERNS OF TAXPAYERS THEMSELVES. ALL WE HAVE AT THIS TIME IS OUR OWN PROJECTIONS. THE ONE MAJOR CONCERN THAT EMERGES OUT OF OUR DATA IS THAT TAXPAYERS MAY FILE LATER THAN EVER.

1. IMPACT OF TAX REFORM

WE KNOW FROM OUR RESEARCH THAT ABOUT 2.5 MILLION LOW INCOME FILERS WILL NO LONGER FILE RETURNS THIS YEAR BECAUSE OF THE INCREASE IN THE PERSONAL EXEMPTION AND THE STANDARD DEDUCTION. HOWEVER, WE PROJECT THAT ABOUT 3.3 MILLION NEW TAXPAYERS WILL FILE RETURNS BECAUSE OF THE REPEAL OF THE PERSONAL EXEMPTION FOR DEPENDENTS WHO CAN BE CLAIMED ON THEIR PARENT'S RETURN. THUS, FOR 1987, WE EXPECT A NET INCREASE OF OVER 700,000 RETURNS ABOVE NORMAL GROWTH.

TAX REFORM WILL, HOWEVER, ALLOW TAXPAYERS TO SHIFT TO SIMPLER RETURNS. THE LOSS OF ITEMS SUCH AS INCOME AVERAGING, THE DEDUCTION FOR WORKING MARRIED COUPLES, AND CHANGES TO ITEMIZED DEDUCTIONS WILL CAUSE 3.2 MILLION FILERS TO CHANGE TO FORMS 1040A AND FORMS 1040EZ.

2. LATE-FILING TREND

THE MOST TROUBLING DATA WE HAVE CONCERNS THE TREND TOWARDS FILING LATER AND LATER IN THE FILING SEASON. IN 1983, 14% OF ALL INDIVIDUAL INCOME TAX RETURNS WERE FILED IN JANUARY AND 34% WERE FILED IN APRIL. FOUR YEARS LATER, IN 1987, ONLY 4% OF THE RETURNS WERE FILED IN JANUARY AND THE NUMBER OF RETURNS FILED IN APRIL HAD CLIMBED TO OVER 39%. IF THIS TREND WERE EXACERBATED BY

TAX REFORM, IT COULD JAM THE SYSTEM BY SLOWING DOWN PROCESSING, AND THE ISSUANCE OF REFUNDS. AS A RESULT, THERE COULD BE A HIGH PRICE TO PAY. IF WE DON'T PROCESS RETURNS WITHIN A 45 DAY PERIOD AFTER THE RETURN DUE DATE THE GOVERNMENT MUST PAY INTEREST ON REFUNDS.

THERE HAVE BEEN TWO SURVEYS ON THE REASONS FOR THE TREND TOWARDS LATE FILING. THE PRIMARY REASON GIVEN BY TAXPAYERS WAS PROCRASTINATION. ANOTHER MAJOR REASON WAS THE LATENESS IN RECEIVING ALL INFORMATION NECESSARY TO FILE A RETURN. OTHER REASONS CITED INCLUDED MONEY OWED WITH THE RETURN, PROBLEMS IN OBTAINING IRS FORMS, AND COMPLEXITY OF THE FORMS.

BASED ON THESE ANSWERS, IT DOES NOT APPEAR THAT THERE IS AN EASY SOLUTION TO REVERSING THE TREND. HOWEVER, THIS CONCERN LED TO OUR FALL CAMPAIGN AND THE THEME OF OUR ADS PRODUCED BY THE AD COUNCIL. THESE ADS ENCOURAGE TAXPAYERS NOT TO PUT OFF WORKING ON THEIR RETURNS BY EMPHASIZING THAT IT ALSO RELIEVES THEIR WORRIES. WE HAVE ALSO STRESSED THE NEED FOR TAXPAYERS TO BEGIN WORK ON THEIR RETURNS. ALTHOUGH MANY TAXPAYERS WILL FIND THEIR RETURNS ARE SIMPLER, SOME WILL BE FACED WITH MORE COMPLEX RETURNS. WE URGE TAXPAYERS TO DIG IN NOW AND SEE HOW THOSE CHANGES AFFECT THEM PERSONALLY.

ANOTHER FACTOR THAT MAY AFFECT THE ABILITY OF SOME TAXPAYERS AND BUSINESSES TO FILE ACCURATE AND TIMELY RETURNS IS THE LACK OF TECHNICAL CORRECTIONS. PRACTITIONERS AND TAXPAYERS ARE UNCERTAIN ABOUT WHAT RULES TO FOLLOW WHILE THESE CHANGES ARE PENDING. WE HAVE BEEN ABLE TO PROVIDE GUIDANCE IN THE FORM OF REGULATIONS AND FORMS INSTRUCTIONS ON MOST PROVISIONS, BUT THERE ARE A FEW COMPLEX AREAS WHERE TAXPAYERS BELIEVE MORE STATUTORY GUIDANCE IS NEEDED.

3. UNDERWITHHOLDING

ANOTHER CONCERN WAS WHETHER MANY TAXPAYERS WOULD BE SERIOUSLY UNDERWITHHELD. IF TAXPAYERS DID NOT ADJUST THEIR WITHHOLDING BY SUBMITTING A REVISED FORM W-4, THEY COULD FIND THEY DID NOT HAVE ENOUGH TAX WITHHELD. THIS WOULD RESULT IN A TAX RETURN WITH A BALANCE DUE INSTEAD OF A REFUND.

SURVEYS CONDUCTED FOR IRS SHOW THAT W-4 COMPLIANCE IN 1987 WAS RELATIVELY GOOD. ADDITIONALLY, THE TOTAL DOLLAR AMOUNTS OF BOTH INDIVIDUAL WITHHOLDING AND ESTIMATED TAX PAYMENTS ARE UP OVER LAST YEAR. OVERALL, THE STATISTICS INDICATE THAT MOST TAXPAYERS WERE NOT UNDERWITHHELD OR UNDERPAID IN 1987. BUT POCKETS OF UNDERWITHHOLDING AMONG CERTAIN GROUPS OF TAXPAYERS SUCH AS HIGH INCOME TAXPAYERS, WORKING COUPLES AND YOUNG WAGE EARNERS COULD EXIST. RESEARCH ACTIVITIES ARE UNDERWAY TO DETERMINE THE EXTENT OF THIS PROBLEM.

C. FILING SEASON OVERSIGHT AND COMMUNICATION

WE BELIEVE WE HAVE DONE A QUALITY JOB IN GETTING READY FOR THE 1988 FILING SEASON. BUT WE INTEND TO VERIFY OUR CONFIDENCE DURING THE COURSE OF THE NEXT SEVERAL MONTHS. WHERE WE SEE TROUBLE SPOTS, WE HAVE SET UP COMMUNICATION NETWORKS THAT WILL ALLOW US TO ACT QUICKLY.

1. CONFERENCE CALLS

LIKE LAST YEAR, THE NATIONAL OFFICE IS VERY INVOLVED IN CLOSE AND REGULAR COMMUNICATION WITH THE FIELD OFFICES. EACH WEEK DURING THE FILING SEASON NATIONAL OFFICE DATA PROCESSING AND PUBLIC AFFAIRS OFFICES CONDUCT A CONFERENCE CALL WITH REGIONAL TAX REFORM COORDINATORS AND PUBLIC AFFAIRS OFFICERS. THE CALLS SERVE AS TWO-WAY COMMUNICATION: REGIONS PROVIDE THE NATIONAL OFFICE WITH INFORMATION REGARDING THE PROGRESS OF THE FILING SEASON AS WELL AS RECEIVE INFORMATION FROM THE NATIONAL OFFICE REGARDING EXPECTATIONS, TRENDS, AND PROBLEMS REPORTED OVER THE LAST WEEK.

A SECOND EXECUTIVE-LEVEL CALL IS ALSO CONDUCTED WEEKLY. THIS CALL DEALS PRIMARILY WITH ISSUES SUCH AS STAFFING, THE STATUS OF OPERATIONS, COMPARISONS BETWEEN SCHEDULED AND ACTUAL VOLUMES OF WORK. IT ALLOWS NATIONAL OFFICE EXECUTIVES WITH OVERALL RESPONSIBILITY TO DISCUSS THOSE ISSUE WITH FIELD EXECUTIVES WHO HAVE LOCAL RESPONSIBILITY FOR THE SAME FUNCTIONS.

2. MANAGEMENT INFORMATION SYSTEMS

WE ALSO HAVE SEVERAL STATISTICAL REPORTING SYSTEMS IN PLACE TO MONITOR FILING SEASON ACTIVITIES IN BOTH SERVICE CENTERS AND DISTRICT OFFICES. QUALITY MONITORING SYSTEMS ARE IN PLACE AND CAN PROVIDE DAILY FEEDBACK WITHIN A LOCAL OFFICE. THIS INFORMATION IS PASSED ON TO THE NATIONAL OFFICE ON A WEEKLY BASIS FOR ANALYSIS. INVENTORY LEVELS OF SERVICE CENTER WORKLOAD, VOLUMES OF RETURNS RECEIVED AND PROCESSED AND REFUNDS ISSUED, ALL WITH COMPARISONS TO LAST YEAR, ARE ACCUMULATED ON A WEEKLY BASIS BY THE NATIONAL OFFICE FOR ANALYSIS.

3. TAXPAYER SERVICE QUALITY

FOLLOWING THE 1987 FILING SEASON, THE ACCURACY OF OUR TECHNICAL RESPONSES TO TAXPAYERS' INQUIRIES WAS CALLED INTO QUESTION. TELEPHONE SURVEYS CONDUCTED BY THE GENERAL ACCOUNTING OFFICE SHOWED A LOWER ACCURACY LEVEL ON TECHNICAL QUESTIONS THAN WAS REFLECTED IN OUR MANAGEMENT INFORMATION SYSTEMS. WITH THE CHALLENGE OF TAX REFORM FACING US, IT WAS IMPERATIVE THAT WE TAKE A NEW APPROACH TO MEASURING AND IMPROVING OUR TECHNICAL PERFORMANCE.

THE IRS, IN CLOSE COOPERATION WITH GAO, HAS DEVELOPED A NEW SYSTEM DESIGNED TO PROVIDE QUICK INFORMATION TO OUR FIELD OFFICES ON ERROR TRENDS OR LAPSES IN THE COURTESY WHICH WE DISPLAY TOWARDS TAXPAYERS. THE PROGRAM IS CALLED THE INTEGRATED TEST CALL SURVEY SYSTEM AND THE NATIONAL OFFICE WILL ADMINISTER IT IN CONJUNCTION WITH GAO. USING THIS SYSTEM, IRS IS MAKING 200 CALLS PER DAY TO ITS TAXPAYER ASSISTANCE SITES TO DETERMINE THE ACCURACY OF IRS RESPONSES AND TO CORRECT DEFICIENCIES IN SERVICE AS THEY OCCUR. OUR TOLL-FREE TELEPHONE SITES ARE PREPARED TO ADJUST FOR SHORT PERIODS OF TIME IF, IN THE JUDGMENT OF THEIR MANAGERS, THE ASSISTORS REQUIRE SUPPLEMENTAL TRAINING ON A PARTICULAR ISSUE. IN ADDITION, MANY DISTRICT OFFICES WILL DEVOTE TIME EACH WEEK TO A DISCUSSION OF TECHNICAL TAX TOPICS WHICH ARE IDENTIFIED AS "TROUBLE AREAS" IN THAT OFFICE. WE BELIEVE THAT THIS NEW APPROACH REPRESENTS A SIGNIFICANT STEP IN ENABLING US TO

IDENTIFY OUR LEVELS OF QUALITY AND IMPROVE OUR TECHNICAL PERFORMANCE.

4. OTHER OVERSIGHT

FINALLY, WE HAVE SEVERAL OFFICES THAT ARE COMMITTED TO MONITORING THE FILING SEASON. OUR NATIONAL OFFICE COMMAND CENTER, A 24 HOUR A DAY OFFICE THAT MONITORS THE STATUS OF OUR COMPUTER PROCESSING, REPORTS THAT IN JANUARY EVEN WITH THE LARGE NUMBER OF TAX REFORM CHANGES WE HAD A SIGNIFICANT REDUCTION IN THE NUMBER OF SERIOUS PROBLEMS OVER THE SAME PERIOD LAST YEAR. IN ADDITION, NO TAXPAYERS HAVE BEEN AFFECTED BY ANY OF THESE PROBLEMS.

OUR PROBLEM RESOLUTION STAFF HAS ALSO BEEN INSTRUCTED TO REPORT ANY PROBLEMS THAT THEY MIGHT BECOME AWARE OF DURING THE FILING SEASON. THUS FAR, THEY HAVE NOT REPORTED ANY SERIOUS PROBLEMS.

IV. CONCLUSION

WE ARE RENEWING OUR COMMITMENT TO QUALITY AND CUSTOMER SERVICE. THE LEVEL OF PREPARATION FOR THE FILING SEASON AS WELL AS THE IMPLEMENTATION OF THE TAX REFORM ACT REFLECT THOSE TWIN PRIORITIES. WE BELIEVE IF WE PUT QUALITY INTO OUR SERVICES AND WORK FROM A PHILOSOPHY THAT THE TAXPAYER IS A CUSTOMER, NOT JUST ANOTHER CASE, THEN WE WILL DELIVER A QUALITY PRODUCT.

THE FORD MOTOR COMPANY MADE A SIMILAR COMMITMENT TO QUALITY SEVERAL YEARS AGO AND IS NOW REAPING THE FRUITS OF THAT COMMITMENT. DO YOU RECALL THEIR MOTTO, "QUALITY IS JOB 1?" LIKE FORD, WE ARE WORKING TO ESTABLISH THE PHILOSOPHY THAT QUALITY IS JOB ONE AT THE IRS. THREE YEARS AGO EMPLOYEES OF THE IRS SUFFERED A SEVERE BLOW TO THEIR PROFESSIONAL ESTEEM. I BELIEVE THEY HAVE NOW TURNED THE CORNER AND ARE ON THE WAY TO EARNING THE RESPECT OF TAXPAYERS AND PRACTITIONERS AS WELL AS RESTORING THEIR OWN PROFESIONAL PRIDE. IT WON'T COME OVERNIGHT BUT THE COMMITMENT IS THERE AND THIS FILING SEASON IS A DEMONSTRATION OF THAT COMMITMENT.

Appendix A:
IRS Goals

IRS GOALS
FOR
THE TAX REFORM ACT OF 1986

1. Introduction.

The mission of the Internal Revenue Service is "to collect the proper amount of tax revenues at the least cost to the public, and in a manner that warrants the highest degree of public confidence in our integrity, efficiency and fairness." Today, IRS' major challenge in fulfilling its mission is responding to changes to the tax laws made in the Tax Reform Act of 1986 (the "Act"). We can meet this challenge by improving our responsiveness to those outside the agency and by emphasizing quality during our planning and execution within the agency. This document states the agency's goals in carrying out provisions of the Act and its plans for achieving these goals. A brief description of the work necessary to accomplish these goals is also included as an overview for our executives, as well as for practitioners and taxpayer groups who are interested in the effective implementation of the Act.

2. Background.

Americans have a tradition of voluntary compliance. Each year, they carry out the tax laws by preparing and filing their federal tax returns. Their willingness to compute and pay their tax liabilities without intervention from IRS is the foundation of our tax system.

IRS serves as the mechanism for citizens to pay their taxes voluntarily. The tax laws--in this case, the law as amended by the Act--play a critical role in shaping the key elements of this mechanism and have a compelling influence on how these elements are administered. An overriding principle in all activities is our commitment to high quality customer service. We have resolved to carry out the provisions of the Act in such a way that the public's confidence and respect for the Service will be enhanced. We are striving to do the best job possible.

This commitment means that public relations programs, publications, and media efforts must be redesigned to help taxpayers fully understand and comply with their obligations under the new law. The redesign, printing, and distribution of numerous tax forms and publications must be consistent with filing date requirements, and taxpayer assistance operations must provide accurate and timely information over the telephone, in seminars and in outreach programs. The hundreds of computer programs used during the filing season need revision, and those who operate our ten service centers where tax returns are processed must be trained. At the same time our front-line taxpayer service representatives, revenue agents, tax examiners, collection officers, tax auditors, criminal investigators, appeals officers, attorneys, problem resolution officers, and others in field offices around the country must know all ramifications of the new law to ensure compliant taxpayers that noncompliance by others will not be tolerated.

3. Goals.

In providing this service, we have identified four major goals for carrying out the provisions of the Act. They are:

Goal Number I. Provide to taxpayers, on a clearly stated and timely basis, the information necessary to permit them to plan for their 1987 tax liabilities and meet their obligations.

Goal Number II. Provide accurate, timely forms, instructions, publications, guidance, and assistance necessary for taxpayers to file their returns in 1988.

Goal Number III. Process tax returns with an emphasis on quality and timeliness, properly account for tax payments made, and issue prompt refunds.

Goal Number IV. Conduct prompt, thorough, fair, and professionally administered examination, collection, appeals, and litigation programs to assure the compliant taxpayers that noncompliance will not be tolerated.

4. Participation.

Achieving these goals will require the cooperation and active participation of many people. In particular, the over 100,000 employees of IRS will each need to be committed to and involved in implementation. IRS district and region offices and service centers will take an active, creative role in implementing these goals, using National Office personnel as a resource for training, technical expertise, suggestions, and other needs. In addition, we look to other groups, such as organizations of tax practitioners and taxpayers, to participate actively with IRS in implementation.

5. Funding.

We intend to devote adequate resources to the implementation of the Tax Reform Act. While we will strive to carry out all of our other objectives in addition to implementation, our commitment to the Tax Reform Act is paramount. Accordingly, resources will be devoted on a priority basis to our implementation efforts, and other program areas may need to be adjusted if adequate resources are not available for both.

6. Detailed Description.

The four goals listed above provide a framework for IRS' work over the next several months. Each of these goals can be divided into several major objectives to define more precisely the actions that need to be taken.

GOAL NUMBER I. Provide to taxpayers, on a clearly-stated and timely basis, the information necessary to permit them to plan for their 1987 tax liabilities and meet their obligations.

For Goal Number I, major objectives are:

1. Identify major changes in the tax law and communicate them to taxpayers. Among the methods used to reach taxpayers are regulations, rulings, and other published technical guidance; press releases and public service ads on radio, tv, and in print; outreach programs such as seminars and tax clinics conducted by our Taxpayer Service Division; speeches by Service executives on tax reform issues; IRS publications, and periodic briefings of Congress and the media.

2. Encourage taxpayers to check their deposits and withholding during the year so that they will not owe taxes when they file their 1987 returns and so that they will receive the refunds they are anticipating. Achieving this objective involves ongoing monitoring of the filing of new W-4's and the use of publicity to encourage taxpayers to take appropriate action.

3. Effectively communicate to taxpayers with dependents their new obligations to obtain social security numbers for their dependents.

GOAL NUMBER II. Provide accurate, timely forms, instructions, publications, guidance, and assistance necessary for taxpayers to file their returns in 1988.

For Goal Number II, major objectives are:

1. Design forms and publications that are technically accurate, easy to follow, and available to taxpayers when they need them. Our program to release drafts of forms this summer will be used to get out the major forms and instructions in draft form in May, June, and July, so that taxpayers, practitioners, states, and other interested parties will be aware of the basic features likely to appear in the forms and will have an opportunity to suggest changes. In addition to our early release program, we need to ensure that the established printing schedules are met and that we thereby have a timely, effective and well-executed distribution program.

2. Provide published technical guidance on major issues sufficiently in advance of the filing season so that such guidance may be analyzed and understood by practitioners and taxpayers.

3. Communicate effectively with taxpayers by accurately and promptly answering their questions and communicating IRS messages. This includes executing a training program for all IRS employees so that they have an understanding of the nature and purpose of tax reform, can communicate with others about it and understand their roles in implementing it. Additionally, we will provide assistance to the public through our telephone assistance program, our offices across the country, our Volunteer Income Tax Assistance, Tax Counseling for the Elderly, and other outreach programs. We hope to involve practitioner and taxpayer groups in promoting taxpayer understanding of tax reform.

GOAL NUMBER III. Process tax returns with an emphasis on quality and timeliness, properly account for tax payments made, and issue prompt refunds.

For Goal Number III, major objectives are:

1. Ensure that computer programs for processing tax returns are developed and tested so that problems can be worked out well in advance of the filing season.

2. Ensure that service centers are fully prepared for the filing season. A joint field and National Office effort will be necessary to ensure success.

3. Conduct surveys and analyze information to determine potential impact of the Act on changes in filing

patterns so that this can be taken into account in planning for the filing of returns.

4. Monitor the technical corrections bill and other legislation to minimize the impact of changes on IRS programs and manuals.

5. Achieve quality and timely processing of tax returns and payments to ensure prompt and accurate issuance of refunds, information notices and bills to taxpayers.

6. Process taxpayer adjustment requests and respond to taxpayer inquiries and problems in a timely and professional manner.

GOAL NUMBER IV. Conduct prompt, thorough, fair, and professionally administered examination, collection, appeals, and litigation programs to assure the compliant taxpayers that noncompliance will not be tolerated.

For Goal Number IV, major objectives are:

1. Determine strategies for the examination of tax returns to ensure taxpayer compliance with the provisions of tax reform. This will include designing new programs to address compliance issues and formulating positions on new provisions which can be implemented fairly and consistently.

2. Ensure that collection programs, training, and procedures are adequate to deal with any increase in balance due or nonfiling situations.

3. Develop positions and programs to assure prompt, fair, and consistent resolution of controversies at our appeals offices and in litigation.

Appendix B:
Readiness Report

1988 Filing Period
Readiness Group
Final Report

November 25, 1987

Background

Planning for the 1988 filing season started even as the Tax Reform Act was in the formative stages. Many meetings were held with members of the operational functions to determine how particular proposals would affect various Service functions and how they could be administered. As the bill developed, some Requests for Data Services (RDS) were prepared and acted upon prior to the enactment of the legislation. As the bill was reaching its final stages, the functions developed lists of items requiring early action.

After the bill was enacted on October 22, 1986, the early action items received priority attention, and drafts of forms and procedures were developed. Even as the early action items were being resolved the larger task of developing a detailed implementation plan was initiated. The final plan contained more than 400 pages and approximately 2000 separate action items.

The 1988 Filing Period Readiness Group was created as a subgroup of the Executive Steering Committee to ensure that the Service's preparation for the 1988 filing season is complete and provides for a smooth implementation of the Tax Reform Act as it affects 1) Taxpayer Service, 2) Forms Development and Distribution and 3) Service Center Processing of 1987 Tax Returns.

Pat Ruttle, Regional Commissioner Central Region, was appointed as the initial Chairman of the Readiness Group. After Pat was selected to chair the Executive Steering Committee, Ray Keenan, Director Memphis Service Center, was selected to chair the Readiness Group. Other group members representing field and National Office Officials include:

- John Ader
  Deputy Assistant Commissioner,
  (Taxpayer Service and Returns Processing)

- Wally Hutton
  Deputy Assistant Commissioner (Computer Services)

- Orion Birdsall
  Deputy Assistant Commissioner (Human Resources Management and Support)

- Francine Crowley
  Assistant Regional Commissioner (Data Processing),
  North Atlantic Region

- Ira Loeb
  Director, Springfield District

- Prescott Berry
  Director, Phoenix District

- Charles Combs
  Internal Audit Manager, Central Region

- Rudy L. Glismann
  Program Analyst, Planning Staff,
  (Assistant Commissioner Taxpayer Service and Returns Processing)

The group met and developed critical issues and areas of concern to review. The issues were developed utilizing input from Regional Commissioners, the Returns Processing Conference held in June, the Taxpayer Service Conference held in July and concerns of group members.

During the week of August 17 the group collected information regarding these issues through interviews of National Office managers. Major functions represented included: Taxpayer Service, Returns Processing, Computer Services, Publishing Services, Forms & Publications, Distribution Centers, Public Affairs, Internal Audit and Integrated Management System.

Follow-up interviews were conducted in the same functional areas during the week of October 5. On the basis of these interviews, and other work of the group, recommendations were developed for follow-up by the appropriate responsible Assistant Commissioner.

During the review process a host of issues were considered. Particular emphasis was placed on the group's assessment of the adequacy of the planning being performed by each functional area. Many issues that were critical during the time frame during which the reviews took place (July thru October) have been resolved.

This report is not intended to provide a history of the study group's activities. Rather it is intended to provide an assessment of the Service's readiness for the 1988 Filing Season in three major functional areas (Taxpayer Service, Forms and Publications and Service Center Processing), and to identify specific items that require continued management attention as we move into and through the filing season.

Assessment

The three functional areas were intensively involved in planning for implementation of the Tax Reform Act and preparations for the 1988 Filing Season. They were all aware of their responsibilities and detailed plans were already in place when our review began. All functional areas had established goals and identified potential problem areas that they were addressing. We found the planning efforts to be thorough and of high caliber.

However, there was one significant unknown that continued to haunt us during the review process. It was -- will there be legislation passed late in the year (November, December) that would impact negatively on the Service's preparation for the filing season, including Budget Reconciliation, Technical Corrections, and Taxpayer Bill of Rights. Futhermore, if Budget Reconciliation is not enacted the automatic provisions of Gramm-Rudman would be implemented. These could all have a significant negative impact on filing season readiness depending on the specific provisions enacted and their effective dates.

Some Planning Highlights for Each Functional Area

Returns Processing and Accounting

1. Made extensive efforts to develop detailed workload projections for each Service Center, including; changes in filing by type of return, from refund to full-paid return, movement of filing pattern closer to April 15, volume of returns going through the Error Resolution System, peak remittance processing workload and unallowable items workload.

2. Provided recommendations to the Commissioner to determine the Estimated Tax Penalty policy for Tax Year 1987.

3. Recognized the need, established target dates, and provided procedural handbooks and training materials timely to the Centers.

4. Visited all Service Centers and reviewed with managers the impact of Tax Reform on Center Processing.

5. Coordinated with Computer Services the early submission of Requests for Data Services.

6. Emphasized the need for reductions of Service Center inventories.

Taxpayer Service

1. Completed readiness checks in all Regions and follow-up items communicated to each Region.

2. Developed training materials early and established plans to complete training well before the filing season begins.

3. Completed plans for early hiring and training. Funding provided for adequate on the job training and retention of new hires.

4. Issued Manual Supplement dealing with Quality Performance.

5. Excellent detailed planning for Taxpayer Information and Education included the production of PBS New Legislation Tax Clinic as an example.

6. A back-up telephone system (DACON) which uses a call sequencer will be in place in all toll-free VEGA sites which use an automatic call distributor.

7. In conjunction with the SOI Division and GAO, developing an improved system to measure the quality of responses to Technical Tax Law inquiries. Will help identify soft spots and allow for corrective steps.

8. Funding provided to all regions for extended hours of taxpayer assistance.

9. Tele-conference was held with the Commissioner and National, Regional, and District Taxpayer Service Managers.

10. Three telephone answering back-up sites have been established for use by any site experiencing significant down time.

Computer Services

1. All Requests for Data Services needed for the 1988 filing season are complete and available for testing.

2. Systems Acceptability Testing is on or ahead of schedule with no major problems identified to date.

3. Visits have been made to all Centers to provide a briefing on the changes for 1988.

4. Hardware Readiness Reviews have been completed at all Centers.

5. There are three back-up UNISYS 9040s (Front End Processor) available, and a fourth is being refurbished and is expected to be available for the filing season.

6. The Communication Replacement System Pilot in Fresno is being closely controlled and monitored. Emphasis on delivering a quality system continuing.

7. The Command Center continues to work well and will continue to be operational in 1988.

Tax Forms and Publications & Publishing Services

1. Excellent coordination between Forms Development and Publishing Services allowed draft Form 1040 series and related schedules to be completed earlier than ever before. This allowed time for public and practitioner reaction before forms were finalized.

2. Although numerous problems were encountered, contracting for the printing of forms was completed timely.

3. Publication 1045 (Information For Tax Practitioners) was sent to practitioners early.

4. Close working relationships between Publishing Services and CID's sites was developed.

5. The schedule for completion and printing of Tax Publications is tightly controlled. The Deputy A/C (Human Resources Management and Support) conducts weekly status meetings.

6. A contingency plan for fall-back printing is in place with GPO.

7. Publications 920 and 921 which explain the provisions of Tax Reform for individuals and business were made available for the public timely.

Public Affairs

1. The Fall Outreach Campaign has been initiated.

2. The Practitioners Tele-conference was held in October.

3. The mailout to over 90 million Taxpayers, highlighting key provisions of Tax Reform and making known the availability of Publication 920 (Explanation of the Tax Reform Act of 1986 for Individuals) was completed.

4. Plans have been made for a bi-weekly press conference during the filing season.

5. Working with the National Advertising Council in developing a campaign emphasizing timely and accurate filing of tax returns.

Follow-up Items -- 1988 Filing Period

As a result of the Study Group's Review, the following items were identified as requiring continued attention and follow-up. The responsible officials are identified in the index at the end of this report.

Service Center

1. Monitor Service Center work load receipts compared to projections because the Tax Reform Act provides extensive changes to our system. Should the public react by filing returns measureably later than normal, Service Centers could have serious problems at the April 15 peak. While we concluded the methods used for workload projections were very good, a sense of unpredictability exists. Close monitoring of receipts will allow time for revising contingency plans if conditions warrant.

2. Ensure that all Service Centers are knowledgeable in how to manage the Error Resolution System to prevent over-flow conditions. This will be accomplished by providing specific training to key personnel from each Service Center after consultation with each Region/Service Center to determine Center by Center needs.

3. Continue emphasis on Service Center inventory reductions in preparation for the filing season.

4. Monitor recruitment at all Service Centers but give particular attention to Andover. Provide assistance as necessary and consider transshipping returns if necessary. Deputy Assistant Commissioner, Human Resources will continue biweekly briefings.

5. Ensure that Returns Processing staff the Command Center with analysts who have broad service center processing knowledge.

6. Have conference calls with ARC's (Data Processing) and Service Center Directors weekly during the filing season. The study group strongly recommends that, at a minimum, this technique be used during the late January through February time period. We need excellent communications this year.

7. Update, emphasize, and issue the Workload Assistance Plan. This can be a good safety net should an individual center encounter processing problems.

8. Continue close monitoring of 9040 Computer Performance in each center.

9. Continue to review and update plans for the Communications Replacement system testing and installation. The pros and cons should be weighed very carefully before a decision is made for implementation at any center during the filing season.

10. Ensure that Computer Services "hub tests" 1988 programs at the Memphis Service Center with adequate staffing to promptly correct problems that are identified. On site-support will also be provided at the other Centers.

11. Ensure that Computer Services conducts a meeting with key personnel from each Service Center in December to review "end of year" procedures in detail.

12. Ensure that additional DIS nodes are delivered, installed, and tested in time for the 1988 filing season.

13. Monitor Systems Acceptability Testing through completion. Continue regular bi-weekly briefings with the A/C Computer Services.

14. Complete written responses to unresolved issues that developed during Service Center Returns Processing and Accounting Divisions presentations on tax law changes.

15. Keep Service Center management informed as developments occur relating to the implementation of the Total Evaluation Performance System (TEPS).

Taxpayer Service

1. Ensure that the telephone back-up systems (DACON) are installed timely (December) in all VEGA toll-free sites.

2. Ensure Taxpayer Service Workload projections are carefully monitored. Ensure there is trained back-up staff in all offices providing tax assistance.

3. Complete Taxpayer Service Divisions contingency plan by November 30, 1987.

4. Monitor to ensure that the moves of the Denver and Milwaukee call sites are completed for the filing season.

5. Review readiness of the three back-up Taxpayer Service Telephone Answering sites (Jacksonville, Indianapolis, and Houston).

6. Follow through in developing a new system to measure quality of responses assistors provide to taxpayers through the toll-free system.

Forms Distribution and Publication Services

1. Complete final readiness reviews of CID's sites scheduled for December.

2. Follow up to ensure the ACD System for the Bloomington CID site is installed as scheduled in December.

3. Maintain tight control and inventory systems to ensure timely completion, printing and distribution of Tax Forms and Publications. Maintain adequate inventory levels at CID sites.

4. Meet customer demand for Publication 920 including adequate inventory levels at CID sites.

Other

1. Finalize application of ES Penalty for Tax Year 87 and related notices to taxpayers. Form 2210 needs to be revised accordingly, printed, and distributed.

2. The Regions should perform readiness reviews in each Service Center and District Office Taxpayer Service function. Problems should be identified and promptly corrected. Problems beyond regional control should be promptly reported to the appropriate Assistant Commissioner.

3. Ensure necessary testing of run times for Electronic filing on the 1100 System in Cincinnati and Ogden.

4. Monitor filing preparations for electronic filing including user testing, finalizing contract with CLR Corp., and the preparation of an Electronic Filing contingency plan.

5. Monitor legislation which will extend refund offsets for government debts beyond 12/87.

6. Develop a strategy to address the potential for negative public or media reaction to the Tax Reform Act.
Examples: Forms are too complex.
Taxing minors.
Telephone demand is beyond capacity.

7. Develop an early warning system to include:
   1. What questions are taxpayers calling about?
   2. What are service center error rates and if abnormal, what are the causes?

Be prepared for an extensive publicity campaign if needed as specific problem areas are identified.

Index to Follow-up Items

Service Center

Item	Responsible Official(s)
1 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Regional Commissioners - Service Center Directors
2 -	- Assistant Commissioner, Taxpayer Service and Returns Processing
3 -	- Assistant Commissioner, Taxpayer Service and Returns Processing
4 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant Commissioner, Human Resources Management and Support
5 -	- Assistant Commissioner, Taxpayer Service and Returns Processing
6 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant Commissioner, Computer Services
7 -	- Assistant Commissioner, Taxpayer Service and Returns Processing

8 -	- Assistant Commissioner, Computer Services
9 -	- Assistant Commissioner, Computer Services
10 -	- Assistant Commissioner, Computer Services
11 -	- Assistant Commissioner, Computer Services
12 -	- Assistant Commissioner, Computer Services - Assistant Commissioner, Human Resources Management and Support
13 -	- Assistant Commissioner, Computer Services
14 -	- Assistant Commissioner, Taxpayer Services and Returns Processing
15 -	- Assistant Commissioner, Taxpayer Servies and Returns Processing

Taxpayer Service

Item	Responsible Official(s)
1 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant Commissioner, Human Resources Management and Support
2 -	- Assistant Commissioner, Taxpayer Services and Returns Processing - Regional Commissioners - District Directors
3 -	- Assistant Commissioner, Taxpayer Service and Returns Processing
4 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant Commissioner, Human Resources Management and Support
5 -	- Assistant Commissioner, Taxpayer Services and Returns Processing
6 -	- Assistant Commissioner, Taxpayer Services and Returns Processing

Forms Development and Publishing Services

Item	Responsible Official(s)
1 -	- Assistant Commissioner, Human Resources Management and Support - Regional Commissioner - Mid-Atlantic, Mid-West and Western
2 -	- Assistant Commissioner, Human Resources Management and Support
3 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant Commissioner, Human Resources Management and Support
4 -	- Assistant Commissioner, Human Resources Management and Support

Other

Item	Responsible Official(s)
1-	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant Commissioner, Human Resources Management and Support - Assistant Commissioner, Computer Services
2 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant Commissioner, Computer Services - Assistant Commissioner, Human Resources Management and Support - Regional Commissioenrs - Service Center Directors - District Directors
3 -	- Assistant Commissioner, Computer Services
4-	- Assistant Commissioner, Taxpayer Services and Returns Processing - Assistant Commissioner, Computer Services - Assistant Commissioner, Human Resources Management and Support
5 -	- Assistant Commissioner, Computer Services
6 -	- Assistant to Commissioner, Public Affairs
7 -	- Assistant Commissioner, Taxpayer Service and Returns Processing - Assistant to Commissioner, Public Affairs

Appendix C:
Booz-Allen Report

BOOZ·ALLEN & HAMILTON INC.

4330 EAST WEST HIGHWAY • BETHESDA, MARYLAND 20814-4455 • TELEPHONE: (301) 951-2200 • TELEX II: 710-824 0552

November 2, 1987

Commissioner Lawrence B. Gibbs
Internal Revenue Service
1111 Constitution Avenue N.W.
Washington, D.C. 20224

Dear Commissioner Gibbs:

Booz, Allen & Hamilton Inc. is pleased to submit this final report on our management review of the IRS Implementation Plan for the Tax Reform Act of 1986. The report documents our analysis, conducted during July and early August 1987, and presents our assessment of IRS tax reform planning and recommendations to strengthen it.

Overall, our assessment of the implementation planning effort and much of the execution of the Plan to date is favorable. Clearly, the IRS is committed to a comprehensive translation of the law into its operations. Furthermore, the managers and executives with whom we spoke were dedicated and enthusiastic about implementing tax reform and providing the highest possible level of service to taxpayers. At the same time, it is clear that the IRS must still complete a number of actions prior to the 1988 filing season, and there remains some uncertainty as to how taxpayers will respond to tax reform. The Service must monitor closely its execution of the Implementation Plan and be prepared for a range of taxpayer responses.

We have enjoyed the opportunity to work with you and other Service executives. We are confident that the work we have done will provide a solid basis for improving both current and future tax reform implementation planning.

Very truly yours,

BOOZ, ALLEN & HAMILTON Inc.

John C. Newman
Vice President

Management Review of the IRS Implementation Plan for the Tax Reform Act of 1986

Final Report
November 2, 1987

EXECUTIVE SUMMARY

Booz, Allen & Hamilton Inc. conducted a management review for the Internal Revenue Service during July and early August 1987 to examine the development and initial execution of plans for implementing Public Law 99-514, the Tax Reform Act of 1986. Our task was to identify any significant planning deficiencies that could jeopardize IRS' ability to implement the new law or administer the overall tax system. The management assessment was a broad review geared to providing early warning of potential problems, as opposed to an audit designed to document problems in an exhaustive and detailed fashion. A draft report was submitted to the IRS for review in September.

I. Study Objectives And Scope

The main objective of this review was to provide the Service with an assessment of its tax reform implementation strategy, including specific recommendations as to whether any aspects of the Plan or its implementation should be augmented, revised, or refined.

The framework for the review consisted of the following criteria:

- Completeness of the Plan
- Specificity of the activities/tasks included in the Plan
- Assignment and acknowledgment of responsibilities for implementing the Plan
- Adequacy of the organization, management procedures, and related tracking systems
- Feasibility of the timeframes in the Plan
- Adequacy of the resources allocated to the implementation effort
- Plan progress to date

Our assessment involved professional judgment of the degree to which these and other criteria were met by IRS planning and initial implementation efforts. Our judgments were based on generally accepted principles of management as well as IRS' own goals for tax reform planning.

II. Methodology

Timing considerations restricted the scope of our review, for two reasons:

- For our evaluation to be useful to the Service, we were required to conduct our review in approximately one and one-half months, during July and early August 1987.

- The field elements of the IRS were just beginning to prepare for the 1988 filing season, preventing us from formulating all but broad, impressionistic conclusions about their implementation efforts to date.

Due to these limitations, Booz, Allen focused largely on the National Office role in implementation planning and initial execution.

We conducted our review according to the following steps:

- Review the Implementation Plan prepared by the Legislative Affairs Division
- Compare the Plan with selected provisions of the TRA
- Interview Legislative Affairs personnel
- Interview National Office personnel in all functions affected by tax reform
- Review relevant documents
- Conduct site visits to one service center and one district office
- Analyze the assembled information and prepare a report on our assessment

III. Assessment Summary

This section summarizes our management assessment of IRS planning efforts to implement the Tax Reform Act of 1986, based on the evaluative framework described in section I. We recognize that implementation of the Act is a large and complex undertaking, and that the brief time allowed for execution can result in some items falling behind schedule, others being identified as a requirement late in the planning process, and still other items being overlooked completely. We sought to identify such instances when they appeared to be significant.

1. THE TAX REFORM IMPLEMENTATION PLANNING PROCESS WAS EFFECTIVE AND PRODUCED A SOUND PLAN OVERALL

On the whole, the planning process was effective in that it produced an agency-wide TRA Implementation Plan that was sufficiently complete and specific to facilitate detailed planning for Tax Reform by most IRS National Office functional divisions. The procedures for identifying the appropriate divisions, assigning their responsibility for TRA implementation, and gaining their acknowledgment were also effective, for the most part. The divisions' detailed plans also appeared complete, overall.

A deficiency in the agency-wide Plan we identified is the lack of executive-level information and overall management guidance on the Plan and the IRS' implementation strategy. The voluminousness and detail of the Plan and its lack of management-level information effectively precluded IRS executives from reading and gaining an overall sense of the Plan.

2. THE OVERALL ORGANIZATION AND MANAGEMENT OF TAX REFORM HAS BEEN EFFECTIVE, BUT COULD BE IMPROVED

There are numerous aspects to the IRS' organization and management approach to tax reform implementation, including institutional elements such as the standard procedures for planning tax law implementation and the formal IRS organizational structure with its assigned areas of functional responsibility.

Additionally, there are informal networks and ad hoc elements outside of the formal organization and institutional procedures, such as the Executive Steering Committee, which was organized specifically to play a role in tax reform management. Other examples include the group that developed the Tax Reform Implementation for Executives course and numerous functional working groups convened to supplement the formal work planning processes.

On the whole, the organization and management of tax reform implementation has been effective in planning for the tremendous amount of work required to revise IRS procedures. It has also been effective at identifying operational issues and bringing a field perspective to National Office deliberations. The organization and management of tax reform has not, however, been as effective as it might have been at resolving issues that are complex and involve multiple divisions. It is also likely that as the management focus of tax reform shifts from planning to implementation and monitoring, organizational adjustments will be necessary.

3. INTERNAL IRS COMMUNICATIONS HAVE BEEN EFFECTIVE, BUT A BETTER MECHANISM IS NEEDED TO KEEP FIELD EXECUTIVES APPRISED OF OVERALL DEVELOPMENTS

Internal IRS communications have effectively conveyed to executives and line managers the importance of TRA and the Service's commitment to successful implementation. Likewise, effective communications along established functional lines have facilitated progress on implementation. The only significant weakness in communications we identified concerns the lack of periodic management reports on TRA issues and progress to field executives.

4. THE IRS' EXTERNAL COMMUNICATIONS PLAN WAS SOMEWHAT LATE TO DEVELOP, BUT NOW APPEARS TO BE ON TRACK

It has taken the IRS longer than it should have to develop a strategy for communicating with the public about the Tax Reform Act. Nonetheless, a strategy has been developed, and a significant boost to IRS efforts will be given by the Advertising Council, which has selected the IRS as a client for the coming year. Although its external communications program is on track, overall, the IRS faces a challenge to make the best use of the Advertising Council's campaign to promote a successful filing season. The Service must ensure that it has the optimal method for identifying the messages it wants to convey to the public.

5. UNCERTAINTY REMAINS ABOUT THE LEVEL OF PUBLIC AWARENESS OF THE TRA AND LIKELY TAXPAYER BEHAVIOR, DESPITE EXTENSIVE RESEARCH CONDUCTED TO DATE

Though the Service has established a variety of mechanisms for gathering public opinion and attitude information, uncertainty remains about how taxpayers will respond to certain provisions of the TRA, such as withholding for certain categories of taxpayers. Also, the Service has not fully utilized the information it does possess. For instance, despite its implications for their functions, Taxpayer Service, Public Affairs, and Returns Processing did not plan to obtain and utilize tax form test results from the Research Division in their filing season preparations.

6. EXECUTION OF IMPLEMENTATION ACTION STEPS IS LARGELY ON SCHEDULE AND APPEARS LIKELY TO REMAIN SO, BUT SIGNIFICANT DEADLINES IN NOVEMBER AND DECEMBER PROVIDE LITTLE MARGIN FOR DELAY

The execution of the Implementation Plan, through August, had occurred largely in the National Office, though field operations had begun to gear up for the 1988 filing season. A number of significant projects and programs have been completed, and others are proceeding on schedule, or nearly on schedule. As the filing season approaches, however, deadlines will become more urgent. Many important and complex actions are scheduled for November and December 1987, the normal time period when the Service completes its actions for the upcoming year. While the Service appears to be on target for most of these programs, timing will be far more critical during that time than it has been to date.

7. THE CENTRAL IMPLEMENTATION PLAN MONITORING SYSTEM TRACKS PLAN EXECUTION AT TOO GENERAL A LEVEL TO PROVIDE EARLY WARNING OF PROBLEMS

The automated monitoring system used by Legislative Affairs to track the execution of the action steps in the agency-wide Implementation Plan measures progress relative to the completion date assigned in the plan. Although this monitoring system provides a useful check on implementation progress, its action items are often too general and its use of completion dates as milestones too late to provide early warning of significant problems, particularly for actions whose deadlines are set closer to the start of the filing season.

In reality, the majority of substantive monitoring occurs in the functional divisions and field organizations, themselves. The only detailed, substantive monitoring from a central management perspective that is occurring for TRA implementation is being conducted by the 1988 Filing Season Readiness Group.

Presently, there is no single group with the responsibility for synthesizing all of the various monitoring results into a coherent view of implementation progress agency-wide, at all levels of organization. Although we estimate the risks associated with a failure to perform such central, integrated monitoring are moderate-to-low, there could be a significant advantage to having such a capability.

8. CONSIDERABLE UNCERTAINTY REMAINS AS TO WHETHER OR NOT THE SERVICE AND THE TREASURY DEPARTMENT CAN ACHIEVE THEIR SCHEDULE FOR PUBLISHING TAX REFORM TECHNICAL GUIDANCE

Both agencies have taken steps to make the most efficient use of a flawed process for producing technical guidance, but we found many Service personnel consider the measures insufficient. If technical guidance for tax reform is not published in a timely fashion, we believe that it will be due to:

- Lack of formal agreement between IRS and Treasury as to what are the most critical projects (of the 76 priority projects named in October 1986), so that staff hours are allocated accordingly
- Delays in the review process stemming from multiple and sometimes unnecessary clearance points
- Inadequate management reporting systems
- Lack of success in combining elements of the review process in the drafting process.

The amount of revenue involved in many TRA provisions, coupled with the possibility of multiple interpretations (some of which may favor the taxpayer and cause revenue loss) in the absence of technical guidance, indicates that further action is required on the part of the IRS and Treasury to further streamline the publishing process.

IV. Recommendations

Based on our management review, we offer the Service these recommendations for addressing issues raised in our assessment of the TRA planning process. The recommendations offered address both the near- and long-term aspects of tax reform implementation planning.

1. CENTRAL MANAGEMENT OF IMPLEMENTATION

Ensure that central management of tax reform continues by designating the Deputy Commissioner (Operations) as the lead official for implementation. Policy issues will require increasingly rapid resolution as the 1988 filing season approaches, and only a single decision-maker with sufficient authority and availability can ensure such quick action. The official should strive to synthesize National Office and field perspectives.

2. IMPLEMENTATION MONITORING

Perform an ongoing, central review of key indicators to strengthen tax reform implementation monitoring. Central monitoring would provide an agency-wide perspective encompassing all functions and field organizations.

3. NATIONAL OFFICE COMMUNICATIONS TO THE FIELD

Communicate periodic summaries of tax reform implementation progress to field executives. This will allow field executives to understand broad implementation developments across the range of functions, as opposed to the largely functional communications that are currently provided.

4. FILING SEASON CONTINGENCY PLANS

Develop filing season contingency plans, based on probable scenarios, for high-risk areas, and analyze the plans from a Service-wide viewpoint. This analysis will allow senior agency management to determine how contingencies could impact on different functions, how functional responses could interact, and what degree of flexibility may be required to respond to the scenarios.

5. UNCERTAINTY ABOUT TAXPAYER BEHAVIOR

Reduce the uncertainty associated with taxpayer behavior due to the TRA by continuing current research programs. Revised research results should be factored into operational planning as the IRS prepares for the 1988 filing season. Also, provide the results of tax form testing to Taxpayer Service, Public Affairs, and Service Centers to provide these units with early insight into likely areas where taxpayers will have questions and problems with 1987 tax forms.

6. FURTHER TAX LAW CHANGES

Oppose vigorously any proposed Tax Code changes that would substantively affect 1987 tax return processing. Such 11th hour changes could be disastrous from a tax administration perspective.

7. TAX REFORM TECHNICAL GUIDANCE

Take stock of the technical guidance that must be issued, commit to publishing the guidance according to a realistic schedule, and monitor the progress of priority projects until they are completed.

8. INSTITUTIONAL CHANGES

Enhance future implementation planning and execution by adopting several institutional changes, including:

- Specification of a central management structure with line authority to oversee implementation that is codified in the Internal Revenue Manual

- Addition of a management summary/strategy section to the Implementation Plan that includes overall goals, priority issues, and favored approaches

- Evaluation of completed tax reform efforts for use in revising implementation planning procedures in the Internal Revenue Manual.

**Appendix D:
Current Stats**

INDIVIDUAL INCOME TAX RETURNS
RECEIVED AND PROCESSED

Returns Received and Processed in Service Centers through February 6, 1987 and February 5, 1988. (In Thousands)

1. Weekly		1987	1988	Percent Change
a) Receipts:	1040	2362	1909	-19.2
	1040A	2131	1918	-10.0
	1040EZ	2164	2155	-0.4
	Total	6657	5982	-10.1
b) Processed:	1040	524	463	-11.6
	1040A	536	428	-20.1
	1040EZ	536	539	0.6
	Total	1596	1430	-10.4

2. Cumulative From January		1987	1988	Percent Change
a) Receipts:	1040	3705	2870	-22.5
	1040A	3681	2890	-21.5
	1040EZ	3698	3381	-8.6
	Total	11084	9141	-17.5
b) Processed:	1040	887	797	-10.1
	1040A	929	707	-23.9
	1040EZ	905	917	1.3
	Total	2721	2421	-11.0

ELECTRONIC RETURNS

RETURNS ACCEPTED	CUM 1/15 -- 2/5/88
CINCINNATI SC	46,000
OGDEN SC	12,287
TOTAL	58,873

RETURNS ACCEPTED DURING 1987 FILING SEASON 77,612

REFUND COMPARISON REPORT

Refunds Certified by National Computer Center through February 5, 1987 and February 4, 1988.

1. Weekly	1987	1988	Percent Change
a) Number (Thousands)	355	436	22.8
b) Amount of Principal (Millions)	$217	$310	42.8
c) Average Refund	$611.00	$710.66	16.3

2. Cumulative from January 1			
a) Number (Thousands)	513	528	3.0
b) Amount of Principal (Millions)	$281	$346	23.3
c) Average Refund	$548.42	$655.60	19.5

TAXPAYER SERVICE

	2/7/87	2/6/88
Calls Answered(Cum Week 6)	5,445,339	5,826,148

A)

INDIVIDUAL INCOME TAX RETURNS
RECEIVED AND PROCESSED

Returns Received and Processed in Service Centers through February 13, 1987 and February 12, 1988. (In Thousands)

1. Weekly		1987	1988	Percent Change
a) Receipts:	1040	3467	3376	-2.6
	1040A	2160	2172	0.6
	1040EZ	2022	2162	6.9
	Total	7649	7710	0.8
b) Processed:	1040	1249	1007	-19.4
	1040A	959	976	1.8
	1040EZ	1008	972	-3.6
	Total	3216	2955	-8.1

2. Cumulative From January		1987	1988	Percent Change
a) Receipts:	1040	7162	6235	-12.9
	1040A	5893	5109	-13.3
	1040EZ	5729	5611	-2.1
	Total	18784	16955	-9.7
b) Processed:	1040	2136	1804	-15.5
	1040A	1888	1683	-10.9
	1040EZ	1913	1889	-1.3
	Total	5937	5376	-9.4

TAXPAYER SERVICE

	2/7/87	2/6/88
Calls Answered (Cum Week 6)	5,445,339	5,826,148

REFUND COMPARISON REPORT

c)

Refunds Certified by National Computer Center through
February 12, 1987 and February 11, 1988.

1. Weekly	1987	1988	Percent Change
a) Number (Thousands)	1,428	1,188	-16.8
b) Amount of Principal (Millions)	$997	$930	-6.8
c) Average Refund	$698.06	$782.51	12.1
2. Cumulative from January 1			
a) Number	1,941	1,716	-11.6
b) Amount of Principal (Millions)	$1,278	$1,276	-0.2
c) Average Refund	$658.52	$743.45	12.9

ELECTRONIC RETURNS

RETURNS ACCEPTED	CUM 1/15 -- 2/12/88
CINCINNATI SC	75,115
OGDEN SC	21,263
TOTAL	96,378

RETURNS ACCEPTED DURING 1987 FILING SEASON 77,612